AN EMPIRICAL INVESTIGATION INTO THE ACCOUNTING, ACCOUNTABILITY AND EFFECTIVENESS OF WAQF MANAGEMENT IN THE STATE ISLAMIC RELIGIOUS COUNCILS (SIRCs) IN MALAYSIA

By

SITI ALAWIAH SIRAJ ***FCCA, CA (M)***

Master of Science in Accounting (International Islamic University Malaysia)
Postgraduate Diploma in Social Science Research Method (Cardiff University)

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IN THE NAME OF ALLAH
MOST GRACIOUS
MOST MERCIFUL

ABSTRACT

Waqf and its management in Malaysia have been very much neglected by the relevant authorities for a relatively long period of time. In Malaysia, *waqf i*s managed by State Islamic Religious Councils (SIRCs), which is the sole trustees for *waqf* resources. The emergence of Islamic economics and the pressing demands for greater accountability and better performance in the public sector organisations provided an impetus for the *waqf* revival in Malaysia. Thus this study empirically investigated the accounting, accountability and effectiveness of the *waqf* management in Malaysia. A questionnaire survey examining the current practices of the principal management activities including strategic planning, budgeting and budgetary control, performance measurement and financial reporting was distributed to thirteen SIRCs and two semi-autonomous *baytulmal* institutions, one in Sabah and the other in Sarawak. Furthermore, a series of semi-structured interviews was conducted on the senior and operational officers of SIRCs/*baytulmal* institutions, the Department of *Awqaf, Zakah* and *Hajj* (JAWHAR), the Malaysia *Waqf* Foundation (MWF) and the National Audit Department (NAD).

Essentially, the study revealed a number of noticeable findings with regard to the principal management activities in SIRCs/*baytulmal* institutions. Firstly, budgeting in SIRCs/*baytulmal* institutions appeared to function mainly as planning and control tools. The strict approach to budgetary control in these organisations was to ensure the adherence of spending to the budgets while the efficiency and effectiveness of resource consumption were less emphasised. Delegation of authority and responsibility to operational managers was restricted to budgetary control. Secondly, there were evidences of conspicuous discrepancies in the financial reporting practice. This may have been attributed by the absence of specific accounting framework for Islamic assets and funds held by SIRCs/*baytulmal* institutions. The financial reporting practice in these organisations had less focused on the stewardship/accountability dimension expected of the public sector and non-profit organisations. Thirdly, performance measurement in SIRCs/*baytulmal* institutions appeared to be focusing on enhancing the administrative capacity of the organisations. Fourthly, the existence of strategic planning in SIRCs/*baytulmal* institutions was very limited and mainly conditioned on external requirements. Finally, the study also revealed the presence of inherent challenges in the waqf management in SIRCs/*baytulmal* institutions, namely, financial inadequacy, shortages of manpower, and limited administrative capacity. The present practice of the principal management activities and the inherent challenges had a profound impact on the extent of accountability and effectiveness of the *waqf* management in Malaysia.

DEDICATION

Especially
for
my husband,
my parents,
my children
and
my family

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GLOSSARY

Arabic Terms		**Translation**
amanah		Trusteeship
asnaf	:	Zakah beneficiaries
baytulmal	:	Islamic Treasury
fatwa	:	Legal pronouncement/verdict
hadith	:	The sayings of the Prophet Muhammad (Peace be upon him)
hajj	:	A pilgrimage to Makkah; one of the five tenets in Islam
Ibadat	:	Worship
ibdal	:	Sale of *waqf* assets
ijma	:	General consensus
ijtihad	:	Legal reasoning
Islam Hadhari		Civilisational Islam; Malaysian development agenda premised on the teaching of Islam
istibdal	:	Exchange arrangement of *waqf* assets
Kadi	:	Judge in a *Shari'ah* Court
khilafah		Vicegerency
madhab	:	Islamic legal school
madrasah		Religious (Islamic) school
mawquf	:	Specific property to be converted into a *waqf*
mawquf alayh	:	Recipient or beneficiary of *waqf*
mu'amalat	:	Civil transactions
mudharabah	:	Trading partnership in which capital is contributed by a capital provider and labour from an entrepreneur
mufti	:	Muslim cleric
mukallaf	:	Legally sane to make decisions

mutawalli		Trustee/manager
Shari'ah	:	Islamic law
sunnah	:	The traditions of the Prophet Muhammad (Peace be upon him)
takaful	:	Islamic insurance
waqf	:	Pious endowment
waqf ahli	:	Familial *waqf*
waqf khas	:	Private *waqf*
waqf mushtarak	:	Quasi *waqf*
waqfiyya	:	Declaration or deed for a *waqf*
waqif	:	Founder of *waqf*
Yang Di Pertua	:	The Head of an organisation; equivalent to a CEO in an organisation
Yang Di Pertua Negeri	:	The Head of a state: representative of the King in states without a Ruler
Yang Di Pertuan Agong	:	The King; paramount ruler of the Malaysian constitutional system
Yang Di Pertuan Besar	:	The Head of State of Negeri Sembilan: has equivalent position and authority as a Ruler
zakah	:	Islamic taxation

ABBREVIATION

Abbreviations		Meaning
AI	:	Accountability Index
AWT	:	Annual Work Target
CEO	:	Chief Executive Officer
EXCO	:	Executive Councillor
FRS	:	Financial Reporting Standards
IDB	:	Islamic Development Bank
IKIM	:	Institute of Islamic Understanding of Malaysia [*Institut Kefahaman Islam Malaysia*]
INDAH	:	Institute of Islamic Da'wah and Training (*Institut Latihan dan Dakwah Islam*)
IRTI	:	Islamic Research and Training Institute
JAKIM	:	Department of Islamic Development of Malaysia (*Jabatan Kemajuan Islam Malaysia*)
JAWHAR	:	Department of *Awqaf, Zakah* and *Hajj* (*Jabatan Wakaf, Zakat dan Haji*)
KAPF	:	Kuwait Awqaf Public Foundation
MAMPU	:	Malaysian Administrative Modernisation and Management Planning Unit
MAS	:	Micro Accounting System
MASB	:	Malaysian Accounting Standard Board
MBS	:	Modified Budgeting System
MWF	:	Malaysia *Waqf* Foundation (*Yayasan Wakaf Malaysia*)
NAD	:	National Audit Department
NDP	:	New Development Policy
NEP	:	New Economic Policy

NPM	:	New Public Management
OECD	:	Organisation for Economic Co-operation and Development
OIC	:	Organisation of Islamic Cooperation (formerly known as the Organisation of Islamic Conference)
OPP	:	Outline Perspective Plan
PAC	:	Public Accounts Committee
PSD	:	Public Service Department
RM	:	Ringgit Malaysia
SIRC	:	State Islamic Religious Council
SIRD	:	State Islamic Religious Department
SIRIM	:	Standard and Industrial Research Institute of Malaysia
SLA	:	State Legislative Assembly
TIs	:	Treasury Instructions
UNDP	:	United Nation Development Programme
Vision 2020	:	New Vision Policy 2020
YADIM	:	Yayasan Dakwah Islam Malaysia

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

Waqf is regarded as a pious endowment and is connected firmly to the religious precept of charity (Mahamood 2006; Sait and Lim 2006; Abu-Zahrah 2007). It involves a dedication of a property in perpetuity either for charitable purposes with no restriction as to the use of the property endowed and the beneficiaries who shall enjoy the benefits therein (*waqf am*) or for specific purposes or specific beneficiaries (*waqf khas*) (Sait and Lim 2005). Despite there is no specific reference to *waqf* in the Qur'an (Kuran 2001), *waqf* has served the broad societal objective of charitable deeds in Islam (Raissouni 2001; Deguilhem 2008). It has significantly contributed to the human civilisation in the Muslim world and it has gone far beyond normal charity (Hoexter 1998a). In particular, the contribution of *waqf* was notable in strengthening religious practices, imparting knowledge and enhancing education as well as transmitting culture within the Muslim societies.

The evolution of *waqf* went through a considerable growth, stagnation and even downturns (Cizacka 2000b). Similarly, *waqf* in Malaysia has evolved with time and increasing expectations surrounding its management. In the 1950s, a series of state enactments[1] appointed the State Islamic Religious Councils (SIRCs) as the sole trustees of *waqf* assets in Malaysia, aimed to improve the efficiency and effectiveness of the management of *waqf* (Mahamood 2006). Since then *waqf* in Malaysia was managed at the state level by respective SIRCs while subject to the Malaysian administrative framework of public sector organisations.

Nonetheless, *waqf* and the management of *waqf* in Malaysia appeared to be much neglected by the relevant authorities. After more than half a century of being under the management of government trustees, SIRCs, *waqf* was yet to significantly contribute towards the welfare and progress of Muslim communities in the country. This was

[1] Enactments are state laws passed by assemblymen sitting in the State Legislative Assembly and only applies in that particular state. State laws in the states of Sabah and Sarawak are referred as 'state ordinances'.

despite of having accumulated about RM2 billion[2] worth of *waqf* assets and funds. With such substantial value of assets and funds, *waqf* was also expected to have a significant role in strengthening the entire Islamic financial system in Malaysia, together with *zakah*[3] and *baytulmal* (Islamic Treasury)[4] for the benefit of Muslim communities in the country. The pressing demands for greater accountability and better performance in the public sector organisations in the 1980s and later the emergence of Islamic economics in the region, however, provided an impetus for the *waqf* revival in Malaysia.

In response to the revival trend, both SIRCs and the Federal government, have undertaken a number of initiatives aimed at improving the efficiency and effectiveness of the management of SIRCs and the manner in which *waqf* was being managed. In an attempt to improve the efficiency and effectiveness of their administrative functions, SIRCs adopted managerial reforms initiatives introduced by the Malaysian government such as the Total Quality Management (TQM), the MS ISO 9000, the Clients' Charter and several other quality-related managerial policies. At the same time, the Malaysian government established the Department of *Awqaf*, *Zakah* and *Hajj* (JAWHAR) and followed by the creation of Malaysia *Waqf* Foundation (MWF) with a specific purpose at enhancing the administrative capacity of *waqf* management. These two agencies have been made responsible to coordinate the development activities of *waqf* assets and funds in Malaysia. The Malaysian government has also committed to provide financial assistance for the *waqf* development through the Malaysia Development Plan programmes. The 'Ninth Malaysia Plan (2006-2010)' has allocated RM250 million as an impetus for the development of *waqf* in Malaysia. With regards to the financial management, the National Audit Department (NAD) annually conducts the Accountability Index (AI) assessment in SIRCs/*baytulmal* institutions to assure accountable and transparent management of Islamic assets and funds in these organisations. In the recent development, the *Kongres Majlis Agama Islam Negeri-negeri Malaysia* (Malaysian State Islamic Religious Councils Congress) has proposed

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[2] Source: Utusan Malaysia (20 January 2009)

[3] *Zakah* is an Islamic tax whereby a fixed proportion is collected from the surplus wealth and earnings of a Muslim. This contribution is made payable by a Muslim once in every lunar year (Islamic Calendar/Hijri).

[4] Keynote address by the Governor of the Central Bank of Malaysia, Tan Sri Dato' Dr Zeti Akhtar Aziz at the 2007 INCEIF Global Forum 'Leadership in Global Finance – The Emerging Islamic Horizon' on the 30th August 2007.

the formation of Corporate *Waqf*, a perpetual and institution-based approach to *waqf* development. The purpose of the formation was to enhance the socio-economic position of the Muslim community by mobilising *waqf* assets and funds.

Practitioners and academics have also shown their keen interest in the revival of *waqf*. There have been suggestions from researchers to diversify the functions of *waqf* into financing activities (Ahmed 2007; Mahamood 2007a; Hasan and Abdullah 2008; Ahmad 2009), *takaful* (Islamic insurance) (Hashim 2007) and to involve in innovative economic models (Mohammad 2006; Jalil and Ramli 2010; Muhamat et al. 2011). The interest of the past and present researchers in *waqf*, however, tended to concentrate on the legal aspects of *waqf* and its broader implications and association with the economy (Hoexter 1997; Hoexter 1998b; Cizacka 1998b, 2000b), education (Gaudiosi 1987; Shatzmiller 2001; Wafa 2010; Man and Abdulwaheed 2011; Setia 2011), and the social system and the state (Crecelius 1971; Hainsworth 1979; Layish 1983; Powers 1993; Hoexter 1997; Sabra 1998; Dale and Payind 1999; Bagaeen 2006; Hamouche 2007). There were limited studies looking into the performance of *waqf* management (Sulaiman et al. 2009) and the accountability of *waqf* management (Ibrahim and Yaakob 2006; Mohamed et al. 2006; Daud et al. 2011; Ihsan and Ibrahim 2011; Nahar and Yaacob 2011). These empirical studies on the accountability of *waqf* management focused on the financial reporting aspects of *waqf* while the planning and the control aspects of *waqf* resources as well as the performance of *waqf* management are almost negligible. In the light of the latest development in *waqf*, studies in the performance and the accountability of *waqf* management, particularly in Malaysia, are vital in parallel to the growing interest of the public and to sustain the development of *waqf* assets and funds. Thus the study aimed to investigate the accounting, accountability and effectiveness of *waqf* management in Malaysia by examining the current practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting of SIRCs/*baytulmal* institutions.

1.2 Purpose of the Study

The principal aim of this study is to provide useful insights into the accounting, accountability and effectiveness of SIRCs and the manner in which they manage *waqf*. To achieve this objective, the study surveyed the perceptions of senior and operational managers of SIRCs/*baytulmal* institutions covering strategic planning, budgeting and budgetary control, performance measurement and financial reporting practices. The study attempts to answer research questions relating to:

1. The extent of autonomy afforded to the management of SIRCs/*baytulmal* institutions in relation to the operations and future direction of the organisations;
2. The extent of accountability of SIRCs/*baytulmal* institutions towards the institutional authorities of the accountability framework (i.e. the Parliament/State Legislative Assembly and its Public Accounts Committee (PAC), the Federal and State Treasury and the National Audit Department (NAD);
3. The current practice of strategic planning in SIRCs/*baytulmal* institutions;
4. The perceptions of senior managers/executives towards the strategic planning in SIRCs/*baytulmal* institutions;
5. The current practice of budgeting and budgetary control in SIRCs/*baytulmal* institutio*ns*;
6. The perceptions of senior managers/executives towards the budgeting and budgetary control practices in SIRCs/*baytulmal* institutions;
7. The current practice of performance measurement in SIRCs/*baytulmal* institutions;
8. The current practice of financial reporting in SIRCs/*baytulmal* institutions;
9. The extent of the use of external consultants in SIRCs/*baytulmal* institutions;
10. The current practice of strategic planning, budgeting, performance measurement and financial reporting of *waqf* management in SIRCs/*baytulmal* instituti; and
11. The extent of the influence of the Federal religious agencies, namely, Department of *Awqaf, Zakah* and *Hajj* (JAWHAR), Department of Islamic Development Malaysia (JAKIM) and Malaysia *Waqf* Foundation (MWF) on *waqf* management in SIRCs/*baytulmal* institutions.

1.3 Scope of the Study

This research principally involves an empirical investigation of the accounting, accountability and effectiveness of *waqf* management in Malaysia. The research is accomplished by examining the principal management tools of strategic planning, budgeting and budgetary control, performance measurement and financial reporting of SIRCs/*baytulmal* institutions. As the sole *waqf* trustees, SIRCs are accountable for safeguarding, managing and developing *waqf* assets and funds in accordance with the stipulated terms and conditions. In Sabah and Sarawak (i.e. East Malaysia), the management of Islamic assets and funds are delegated to semi-autonomous *baytulmal* institutions, corporatised entities established pursuant to their respective state ordinances[5]. Accordingly, the study examined the accounting, accountability and effectiveness of thirteen SIRCs and two *baytulmal* institutions[6], each in Sabah and Sarawak. In addition, the information on *waqf* management was acquired from the Federal agencies that are responsible for coordinating and facilitating *waqf* activities in Malaysia (i.e. JAWHAR and the Malaysia *Waqf* Foundation [MWF]). The study, however, does not cover private or public organisations that are currently managing *waqf* assets since they are not directly the legal trustees of *waqf* assets in Malaysia.

1.4 Methodology

As mentioned earlier, *waqf* in Malaysia is managed by SIRCs, the sole trustees of *waqf* assets. Since SIRCs are recognised as state statutory bodies, they are subject to the Malaysian legal and administrative framework of public sector organisations. To accomplish the research objectives, this study first reviewed the literature on the accountability and performance of public sector and non-profit organisations, encompassing the literature on the public sector reforms. Further, the study reviewed literature on *waqf* institution to gain an insight into the jurisprudence and socio-

[5] Refer to footnote 1.

[6] In the study, these thirteen SIRCs and two *baytulmal* institutions are referred as SIRCs/*baytulmal* institutions unless stated otherwise. Further discussions on the population of the study are in Chapter Five on the Research Methodology.

economic roles of *waqf* as well as the accountability issues surrounding the institution. The review also covers *waqf* experiences in selected Muslim countries. This assessment is mainly descriptive in nature, and was undertaken by adopting a cross-sectional design of inquiry.

Thus, data collection involved two stages in order to meet the requirements of the study. The first stage was the administration of a questionnaire survey (see Appendix I [English] and Appendix II [Malay]) to the senior officers of the organisations under study. Prior to this, a pilot study was undertaken by administering the questionnaire survey in two SIRCs located in the Klang Valley area. The questionnaire was also discussed with officials of JAWHAR and MWF. These actions were undertaken to assess the reliability and validity of the questions before distribution to respondents. The questionnaire survey was conducted between May and mid-June 2010, and mainly focussed on the accounting, accountability and effectiveness of SIRCs/*baytulmal* institutions. The second stage of data collection involved semi-structured interviews with senior officers who directly participated in the administration of *waqf* and financial affairs of the organisations. The interviews were conducted after the analysis of the questionnaire findings. This would enable the researcher to identify emerging issues that needed to be addressed, in order to ensure that adequate data were collected to answer the research questions.

1.5 Contribution of the Study

Waqf and its management were very much neglected by the relevant authorities for a relatively long period of time. Due to the widespread inefficiencies and maladministration of the *waqf* management in the 1950s, *waqf* management was transferred from being under the local administrators appointed by *waqf* founders to the government appointed trustees, SIRCs (Cizacka 2000b; Mahamood 2006). In response to the pressing demands for a greater accountability and better managerial performance, SIRCs have adopted several quality-related initiatives aimed to improve the efficiency and effectiveness of their overall management, including the management of *waqf* assets. The Malaysian government has also demonstrated its commitment in strengthening the administrative and financial capacity for the development of *waqf* in the country. At the same time, the awareness of the public on *waqf* has increased and was reflected in the magnitude of endowment, in particular, cash *waqf*. The serious commitment from the relevant authorities in developing waqf assets and the rising interest of the public in *waqf* necessitate a systematic evaluation on the accounting, accountability and effectiveness of the management of *waqf*.

Since the primary objective of this study is to empirically ascertain the current practice of strategic planning, budgeting and budgetary control, performance measurement and financial reporting of SIRCs and the *waqf* management, it is therefore hoped that this study will contribute towards a better understanding of the manner in which these organisations as the sole trustees manage the *waqf* assets. Equally important, the study is expected to provide valuable insights for the relevant *waqf* authorities and supervisory bodies to improve the performance and accountability of the *waqf* management in Malaysia. In addition, the study may be used as a benchmark for future studies on *waqf* management in Malaysia as well as other Muslim countries.

1.6 The Structure of the Thesis

A framework is constructed to assist in navigating the various parts and chapters of the thesis, and this is displayed in Figure 1.1.

Chapter One outlines the background of the study, the motivation to undertake the study, the researcher's personal interest in the subject, and the study's objectives, as well as briefly discussing the research methodology.

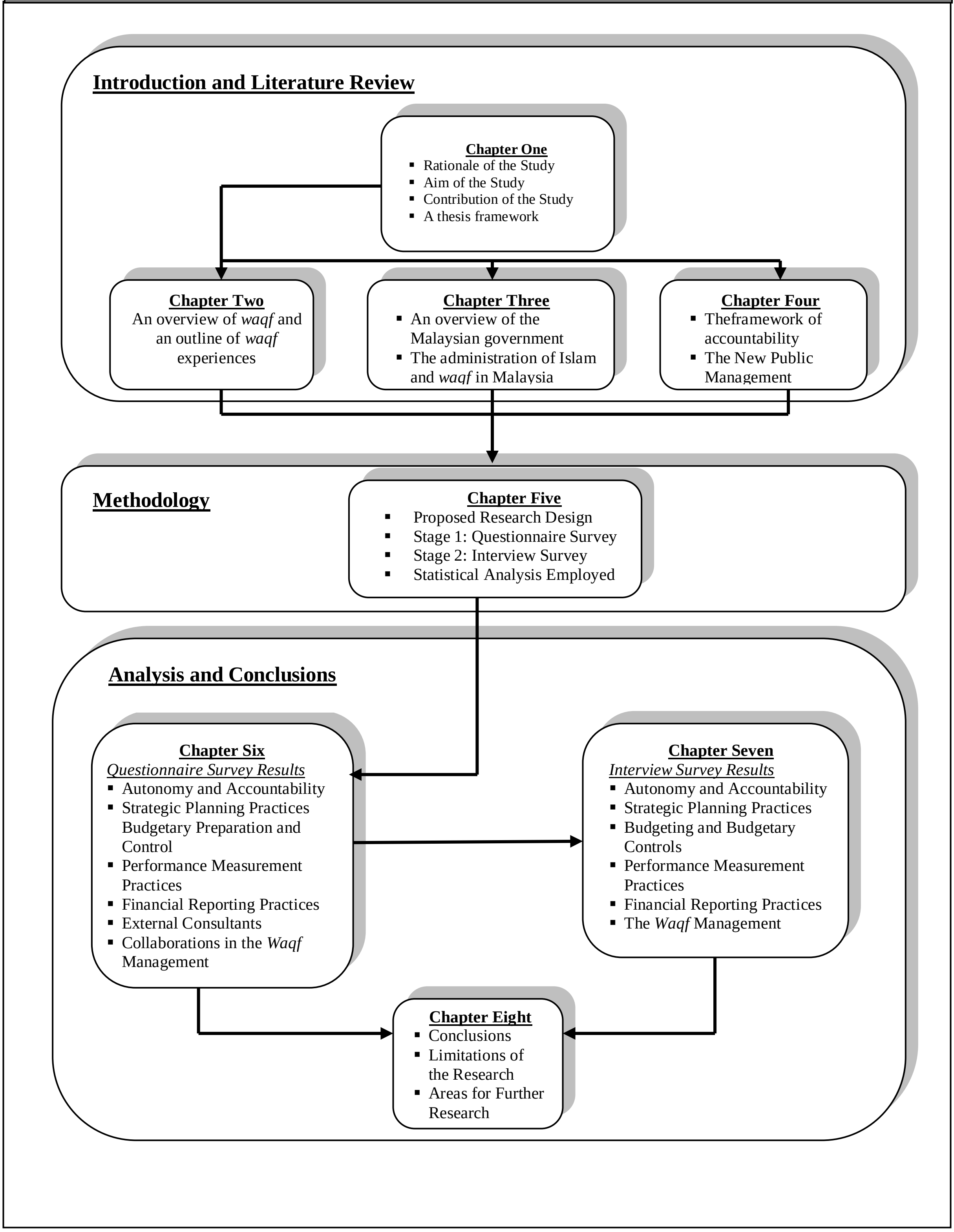
Chapter Two presents background information on *waqf* and the *waqf* experiences in selected Muslim countries. This chapter highlights the legal framework that governs the operation of *waqf*, covering its impact on the administrative aspects of *waqf*. In addition, the chapter highlights the *waqf* experiences during the period of the Ottoman Empire, the period of the presence of Europeans in Muslim countries and the present experience of *waqf* management of selected Muslim countries.

Chapter Three reviews the literature relating to the Malaysian government and the position of Islam in the Malaysian government administration. The chapter underlines the Malaysian administrative and governance structure at the Federal government and the state government level. The chapter also highlights the position of the Rulers within the Malaysian administrative and governance structure. A detailed review is provided on the position of Islam and Islamic institutions in the national development framework. The historical perspectives and present administration of Islam are also presented in the chapter, which includes discussion on the past and the present management of *waqf* in Malaysia.

Chapter Four provides a detailed review of the theoretical framework for the study, namely, the accountability framework and the New Public Management (NPM). The concept of accountability and the Islamic perspectives of accountability are presented in the chapter. In addition, the chapter discusses the public sector reforms based on the NPM, covering its building blocks, namely, managerialism and the new institutional economics. This chapter also highlights a series of financial management and managerial reform initiatives introduced in the Malaysian public sector.

Chapter Five presents a description on the research methodology, covering the research objectives and process used in this study. The chapter describes in greater detail the rationale behind adopting a cross-sectional research design and issues related to data collection. Two primary stages in data collection are discussed: the first stage is the questionnaire survey and the second is the semi-structured interview survey. With regards to the questionnaire survey, the methods used to collect data in this study are presented, including the questionnaire design, pilot study, and distribution procedures. In addition, the details of the semi-structured interview, namely, negotiating access and strategies of interviews are discussed. The processes of analysing the data for both the questionnaire and interview surveys are also discussed.

Figure 1.1: A Framework for the Thesis



The results of the study are detailed in Chapters Six and Seven. Chapter Six focuses on the results of the analysis of the questionnaire survey, while Chapter Seven presents the analysis of the interview surveys. Chapter Eight presents a brief summary of the overall study, and discusses its conclusions and implications for theory and practice. The limitations of the study are also highlighted. A number of recommendations and suggestions for future research are also proposed. Having discussed the context and content of the research project, it is appropriate to gain further insight into the accounting, accountability and effectiveness of the *waqf* management in Malaysia and to consider the existing research that is directly relevant to this study.

CHAPTER TWO: AN OVERVIEW OF *WAQF* AND THE PAST AND THE PRESENT *WAQF* EXPERIENCES IN SELECTED MUSLIM COUNTRIES

2.1 Introduction

The aim of this chapter is to provide an overview of *waqf* and to outline the experiences of the Muslim world in the management of *waqf*. The first part of the chapter offers basic background information to *waqf*, the origin and the categories of *waqf*. In addition, this section presents the objectives of *waqf* and its importance, particularly to the Muslim world. The legal framework that governs the operation of *waqf* and the administrative aspects of *waqf* are also presented. The second part of the chapter outlines the *waqf* experiences in the past and the contemporary *waqf* management of selected Muslim countries.

2.2 An Overview of *Waqf*

Waqf is considered to be a pious endowment in Islam that is connected firmly to the religious precept of charity (Mahamood 2006; Sait and Lim 2006). The origin of *waqf* in Islam remains contentious and cannot be traced to any single source (Cizacka 2000b; Mahamood 2006). Nonetheless, significant literature has claimed that the concept of *waqf* was found in earlier human civilisations such as Mesopotamia, Greece and Macedonia, as similar structures had existed during the times of various ancient civilisations of Persia, Egypt, Turkish and the Byzantine and Roman empires (Cizacka 2000b; Kuran 2001; Abu-Zahrah 2007; Singer 2008; Mohsin 2009). According to Abu-Zahrah (2007), the presence of religious establishments of churches and synagogues and the two prominent mosques, namely, the al-Masjid al-Aqsa[7] in Jerusalem and the al-Masjid al-Haram in Makkah implies the existence of *waqf* practices before the promulgation of Islam.

On the other hand, Shafi'i jurists strongly insist that *waqf* did not exist prior to the existence of Islam and it is therefore appropriate only to trace its origin back to the period of the Prophet Muhammad (Peace Be Upon Him[PBUH]) and his companions (Mahamood 2006). According to Islamic legal perspectives, the first instance of *waqf* was that created in the seventh century AH by the second caliph in Islam, Umar ibn al-Khattab, and this has been widely referred to by Muslim jurists from prominent schools of laws in their jurisdictions on *waqf* (Mahamood 2006). He endowed a piece of land in Khaybar named *Thamagh* on the advice of the Prophet Muhammad (PBUH). Nonetheless, a significant number of scholars regard the Mosque of Quba, which the Prophet Muhammad (Peace be upon Him) erected upon his arrival in Madinah, as the first *waqf* in Islam (Abu-Zahrah 2007).

In Islam, the meaning of *waqf* was interpreted differently by jurists of different Islamic schools of laws[8]. According to the Hanafi School of law, *waqf* is advocated as "the detention of a specific thing in the ownership of the founder, or its creator and, the devoting or dedicating of its usufruct in charity, to the poor or other good objects in the manner of '*ariyah'* (loan), lending, or commodate loan" (Mahamood 2006). The Maliki jurists defined *waqf* as the grant of usufruct of a thing that is binding on the founder for

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[7] Prior to the period of the Muhammad prophethood, the direction of prayers for Muslims (*Ka'abah*) was toward the al-Masjid al-Aqsa at Jerusalem. The direction of prayers for Muslims was later changed facing toward the al-Masjid Al-Haram at Makkah.

[8] There are four main classical Islamic schools of laws advocated by the *Sunni* Muslims i.e Hanafi, Maliki, Hanbali and Shafi'i. These schools of laws are known in Islam as *maddhahib* or *madhab*. They do not constitute distinct legal system rather represent together as one integral system within the *Shari'ah* (Badr, 1977). The schools are found to be prevalent in certain geographical areas and sometimes having divergent interpretations of aspects of *waqf*. Thus the governance of *waqf* varies between regions depending on the prevailing school. For instance, the Hanafi School is more prominent in the Central Asia, Afghanistan, South Asia and the west section of the Ottoman Empire whilst states in the Northern Africa region were loyalists to the Maliki School. This was despite having being conquered by the same Ottoman government. The Shafi'i and Hanbali Schools are more well-known in the South Asia regions. However, a peculiar example takes place in Algiers in which the majority of the population is Maliki but *waqf* aspects are dealt with according to the Hanafi School of laws Layish, A. 1983. The Maliki family waqf according to wills and *waqfiyyat*. *Bulletin of the School of Oriental and African Studies, University of London* 46(1), pp. 1-32.

, Hoexter, M. 1998a. Endowments, rulers and community: Waqf al Haramayn in Ottoman Algiers. *Studies in Islamic Law and Society* 6.

the duration of its existence; ownership remains hypothetically with the founder, although he is no longer entitled to use the substance of the property (Powers 1993). Meanwhile, jurists of the Shafi'i and Hanbali took the strong view that *waqf* refers to the "tying up of the substance of a property and the devoting of its usufruct for the benefit of mankind, in such a manner that ownership of it belongs to God (Allah)"[9] (Mahamood 2006).

Despite the variations in terms and definitions, the fundamental legal meaning of *waqf* is agreed throughout the Muslim world as the dedication of a property either in expressed terms or by implication, for any charitable or religious object, or to secure any benefit to human beings (Mahamood 2006; Abu-Zahrah 2007). Haneef (2001) asserted that different interpretations of key economic-related concepts found in Islam are possible and natural provided they do not deviate from the primary sources of authorities in Islam, namely, the Al-Qur'an and the *Sunnah*[10]. The legal and administrative implications in governing *waqf* institutions as the results of the diverse interpretations are discussed in later paragraphs within this chapter.

2.2.1 The Classification of *Waqf*

The classification of *waqf* is not uniform but it relies essentially on the purpose of its creation and beneficiaries whom shall enjoy the benefits or usufructs of the endowed properties. *Waqf* can be generally classified into two types: *waqf khairy* (charitable *waqf*) and *waqf ahli (*family *waqf*). *Waqf khairy* is generally created for charitable purposes covering social, religious and economic services (Babacan 2011). *Waqf khairy* is known as *waqf am* if it involves a dedication of a property in perpetuity for unstipulated purposes and with no restriction imposed on the use of the property endowed and the income generated therein as well as the beneficiaries who shall enjoy

[9] This interpretation of *waqf* as 'tying up of the substance of a property (*mawquf*) and the devoting of its usufruct for the benefit of mankind, in such a manner that ownership of it belongs to God (Allah)' was given by Abu Yusuf and Muhammad al-Syaibani, who were the disciples of Abu Hanifah (the Hanafi). This interpretation of *waqf* by Abu Yusuf and Muhammad al-Syaibani is accepted not only by his colleagues from the Hanafi.

[10] *Sunnah* refers to all customs and habits of the Prophet Muhammad (PBUH).

the benefits (usufructs) of the property endowed (Sait and Lim 2005). On the other hand, *waqf khairy* with stipulated purposes of its creation and specify its beneficiaries to enjoy the usufruct of *waqf* is classified as *waqf khas.* The common beneficiaries of *waqf khas* would include charitable and religious establishments such as orphanages, old-folk homes, religious schools and mosques. This type of *waqf* was commonly existed during the Islamic era and is still widely practised in the present day.

Waqf ahli or *waqf dhurri* (family *waqf*) is exclusively set up for the benefit of family members (including the founder), freed slaves, or the like (Leeuwen 1999; Abu-Zahrah 2007; Singer 2008) and the usufruct of the *waqf* will then be diverted for charitable purposes without any restriction upon the extinction of the founder's descendants and named beneficiaries (Sait and Lim 2005). The creation of *waqf ahli* was ubiquitous, particularly during the imperial Ottoman period[11] (Hoexter 1998a, b; Leeuwen 1999; Shaham 2000; Lev 2005; Singer 2008). Primarily, the creation of *waqf ahli* was inspired by a Qur'anic injunction[12] to give priority to family members in relation to charitable provisions. However, the widespread practice of *waqf ahli* in the past was argued to have two main objectives. First, *waqf ahli* was created to keep the properties of family intact, to assure the entitlement of beneficiaries for the duration of the objects, and to regulate the transmission of usufructory rights from one generation to the next (Powers 1993). In some Muslim countries where there were vagaries of frequent political and economic upheaval, *waqf ahli* was seen as the perfect mechanism for safeguarding key properties of a family as legally endowed property cannot be confiscated either to collect debts or to satisfy the whims of power (Doumani 1998). Second, *waqf ahli* was utilised to limit fragmentations of real property through the Islamic inheritance laws[13] (Doumani 1998; Lev 2005). The fragmentation of real

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[11] A substantial *waqf ahli* was created by the governor of the Ottoman Egypt, Muhammad Bey Abu Dhahab in 1774 to support his named beneficiaries, himself, his slaves (upon his death) and the blind residents of al-Azhar mosques and its neighbouring mosques in Cairo (upon the death of his slaves). His deeds also stipulated that the revenues shall be spent on the poor and the needy among the Muslims 'if this is not possible' Singer, A. 2008. *Charity in Islamic society*. New York: Cambridge University Press.

[12] Al-Quran: "*And render to the kindred their due rights, as (also) to those in want, and to the wayfarer*" (Al Isra' 17:26) and "*Serve Allah, and join not any partners with Him; and do good- to parents, kinsfolk, orphans, those in need, neighbours who are near, neighbours who are strangers, the companion by your side, the wayfarer (ye meet), and what your right hands possess*" (Al Nisa' 4:36).

[13] According to the Islamic inheritance laws, the spouse as well as the daughters can legally inherit, although the son's share is twice that of the daughter. The son can inherit all his parents' properties, whilst

property is normally inevitable after the death of the endower due to the automatic application of the laws. Ideally, *waqf ahli* safeguards family properties from fragmentation and confiscation by rulers and the state, but the complexity of discords, tensions and conflicts between members of the lineal descent group, who in many cases were the exclusive beneficiaries of family endowments, sometimes prompts fragmentation within the same group as well as between the lineal group and relatives who did not qualify as beneficiaries (Hoexter 1998a). Consequently, this category of *waqf* is not widely created in the present day. Several Muslim governments, such as Egypt, Syria or Lebanon have restricted further creation of *waqf ahli* (Cizacka 2000b; Hasan 2007).

In some Muslim countries, a third classification of *waqf*, known as *waqf mushtarak*, best described as quasi-public *waqf*, was created to satisfy both the founder's family as well as charitable and public purposes (Crecelius 1971; Sait and Lim 2006; Deguilhem 2008; Mohsin 2009). *Waqf mushtarak* was extensively practiced in Egypt with a portion of *waqf* revenues held to be directed to the founder's favourite mosque, school or for specific religious services such as the reading of the Quran at his tomb, while the other portion was for public beneficiaries.

2.2.2 The Legal Framework of *Waqf*

Waqf emerged in the Islamic context despite the fact that there is no specific reference to it in the Qur'an (Cizacka 1998a, 1998b; Kuran 2001; Abu-Zahrah 2007; Babacan 2011). Its legitimacy in the Islamic sphere is only confirmed by evidence of its presence during the Prophet Muhammad's period and of his approval of it[14]. Its legal

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any number of daughters can only inherit two-thirds, with the rest going to the nearest agnates of the deceased (Doumani, 1998).

[14] Classical interpretations on the laws governing *waqf* made substantive reference to a tradition narrated by Ibn 'Umar. It is also widely agreed in the Islamic sphere that the *waqf* arising from the occasion is the first *waqf* in Islam. The full narration of the tradition is *"Ibn 'Umar narrated: 'Umar acquired a land at Khaybar. He came to Allah's Apostle (Peace Be Upon Him) and sought advice in regard to it. He said: Allah's Messenger, I have acquired land in Khaybar, have never acquired property more valuable for me than this, so what do you command me to do with it? Thereupon he (Allah's Messenger) said: If you like, you may keep the corpus intact and gives its produce as sadaqah. So 'Umar gave it as sadaqa declarig that property must not be sold or inherited or given away as gift. And 'Umar devoted it to the poor, the*

parameters have only been developed over centuries by jurists who were inspired by the repeated emphasis on charity as an act of devotion to God[15] (Kuran 2001; Sait and Lim 2006). In developing the legal jurisdictions on *waqf*, Islamic jurists of different schools of law exercise *ijtihad*[16] based on the sources of *Shari'ah*. One often finds opinions are so divergent even among scholars of the same school while some of the opinions are more akin to the prevailing opinion of another school (Badr 1978).

2.2.2.1 The Validity of *Waqf*

As far as the validity of *waqf* is concerned, Muslim jurists from all schools of law are in agreement that a *waqf* is created upon the existence of a *waqif* (founder), a *waqfiyya* (declaration or deed for a pious endowment), *mawquf alayh* (recipient or beneficiary) and a *mawquf* (specific property to be converted into a *waqf)* (Sabran 2005; Sait and Lim 2005, 2006; Abu-Zahrah 2007). A *waqif* can be an individual, a group, an institution, a corporation or a ruler. More importantly, a *waqif* must be *mukallaf*[17](legally fit) (Powers 1993) as the *waqif* needs to determine the objectives, the beneficiaries, and the management of his/her *waqf* as well as imposing any restriction or qualification on it (Ahmed 2007). A *waqfiyya* is a legal document that stipulates the important aspects of a

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nearest kin, and to the emancipation of slaves, and in the way of Allah. There is no sin for one who administers it if he eats something from it in a reasonable manner or if he feeds his friends and does not hoard up goods (for himself). He (the narrator) said: I narrated this hadith to Muhammad, but as I reached the words "without hoarding (for himself) out of it", he (Muhammad) said: without storing the property with a view to become rich,"Ibn 'Umar said: It's who read this book (pertaining waqf) informed me that it (the words are) "without storing the property with a view of becoming rich". Sahih Muslim.

[15] Al-Quran: '*They ask thee what they should spend (In charity). Say: Whatever ye spend that is good, is for parents and kindred and orphans and those in want and for wayfarers. And whatever ye do that is good, -Allah knoweth it well.* (Al Baqarah 2:215).

[16] *Ijtihad* literally means 'endeavour' or 'self-exertion'. In legal perspective, it refers to the endeavour of formulating a rule of law of an issue not covered by the Al-Qur'an. The formulation of law is based on the evidence (*dalīl*) found the main *Shari'ah* sources (see note 14 for the meaning and sources of authority for *Shari'ah*). It roughly corresponds to the term 'interpretation' in Western jurisprudence, although does not exactly have equivalent meaning. *Ijtihad* requires a great deal of interpretive activities Weiss, B. 1978. Interpretation in Islamic law:The theory of ijtihad. *The American Journal of Comparative Law* 26, pp. 199-212.

[17] *Mukallaf* is a state of a mature and sane, free person who has the capability of making his or her own decisions Sabran, O. 2005. *Management of Wakaf Assets (Pengurusan Harta Wakaf)*. First ed. Skudai: Universiti Teknologi Malaysia, p. 92.

waqf made by the founder pertaining to the internal infrastructure of his or her *waqf* (i.e. choice of assets, beneficiaries and administration) (Deguilhem 2008). In some cases the declarations were made verbally. In cases of *waqf* of buildings, *waqfiyyas* provide physical descriptions, their use and its maintenance for future references (Sait and Lim 2006) while it also contained information of the private life of public figures such as their children, the wife (or wives) and their freed slaves if created by public figures (Crecelius 1971).

The *mawquf alayh* (beneficiary) of *waqf* is dependent on the type of *waqf* created and if it is a person, he/she must be alive and legitimate. Beneficiaries of *waqf khayri* (public *waqf*) are unrestricted, ranging from the poor or the needy, mosques, religious scholars, and the general public. In private *waqf*, only named beneficiaries could enjoy the usufructs of the endowed property. In the case of *waqf ahli*, the named familial descendents or freed slaves of the founder would enjoy the benefits of the endowed property (Shaham 2000). According to Hanafi jurists, however, stating that having 'eternal beneficiaries' is a condition of the validity of a *waqf*. At the same time, Maliki jurists stipulate that the corpus of a *waqf ahli* (familial *waqf*) may revert to its original owner or, if he has died, to his heirs, when it is then divided according to normal succession rules if there are no beneficiaries extant (Layish 1983).

Finally, the *corpus* or the property to be converted into a *waqf* (*mawquf*) must be real estates or anything which has some form of perpetuity (Hasan 2007) to allow the continuity and the long-lasting of benefits (Raissouni 2001; Mohsin 2009). Endowed properties consisted of movables, namely, livestocks, weapons and agricultural tools but the most commonly endowed were immovables such as agricultural lands and real assets (Hasan 2007; Babacan 2011). Most of Muslim scholars argued that the condition of the principal or original *corpus* of endowed properties shall be intact or have the attribute of not diminishing in value (Cizacka 1998a, 2000b; Abu-Zahrah 2007). Disputes among scholars of different school of laws on the legality of movables for the reason of diminishing in value, particularly cash and its equivalents to be endowed as *waqf* continued the present decade. In addressing the issue on the corpus of endowed property, including cash and its equivalents, the International Islamic Fiqh of OIC[18] in 2009 has

[18] The resolutions were arrived at the 19th Session held in Ash-Shariqah Emirate (UAE). The session was conducted on 1-5 Jumadil Awwal, 1430H (26-30 April 2009).

produced three resolutions. First, endowment shall encompass the permanent and temporary, the divided and the common, lodgings, utilities, money, real estates and movable items. Second, it is permissible to endow *Shari'ah* compliant corporate shares, deeds, moral rights, utilities and investments, as are considered legal money under the *Shari'ah*. Third, there are specific rulings need to be adhered to as a consequence of endowing shares, deeds, moral rights, utilities and the likes[19]. The rulings are regarded as timely and innovative as Muslim community has evolved, expanded and become more complex. More importantly, the flexibility introduced by the rulings could lead to a surge in the *waqf* creation throughout the Muslim world.

Furthermore, the creation of a *waqf* is concerned not only restricted to Muslims. Non-Muslims, including Jews and Christians living in Muslim communities, can create *waqf* to be dedicated to pious and public objectives within their own communities, but are subject to the Islamic laws of *waqf* (Leeuwen 1999; Deguilhem 2008; Singer 2008). During the Ottoman period, there was a widespread practice of charitable bequest patterned after the practice of *waqf*, known as *hekdesh,* among the Jews who lived in Spain (Cohen 2005; Galinsky 2005). Individuals from Jewish families in Palestine similarly established *waqf* foundations for both community and family reasons during the Ottoman period (Shaham 1991).

2.2.2.2 Restrictions in *Waqf*

Once a property is endowed as *waqf*, it is subject to three restrictions (Mohsin 2009), which contribute to the uniqueness of *waqf* in comparison to other almsgivings in Islam (Laldin et al. 2008). First, a *waqf* is irrevocable; once a founder declares a property as a *waqf*; the ownership is transferred absolutely to God, and his/her heir cannot change the status (Abu-Zahrah 2007). Although there is a consensus among Muslim jurists on the irrevocability of the contract, they had divided opinions with regard to the final

[19] Endowed shares need to be kept and only the revenues are to be used. Trustee has no right to dispose the shares unless for reasons approved by authorised authority. In the case of dissolution, the endowed shares may be exchanged for other assets, which are subject to the conditions set by the endower. If the endowment involves cash money for buying shares, deeds and the like, the shares and deeds shall not be regarded as endowment but the cash money, unless stipulated by the endower. Endowment of moral rights comes to an end with the lapse of the legal term for them.

ownership of the property created as a *waqf*. Jurists of the Hanafi and Shafi'i schools of law adopted the view that the ownership of a *waqf* property is absolutely transferred to God and thus *waqf* is irrevocable. However, the Maliki school of law allows the property to revert to the owner if for any reason the usufruct of the *waqf* can no longer be applied to the purpose for which the *waqf* was established (Layish 1983). The Hanbali jurists hold that the ownership of *waqf* is dependent on the type of *waqf*. If the property is dedicated for mosques and public utilities, the ownership is transferred absolutely to God, while the ownership of the property is transferred to beneficiaries if they are known and specified (Sait and Lim 2005) . According to Mohsin (2009), the purpose of designing this restriction on a *waqf* property is to ensure the property continues to benefit the beneficiaries and the founder continues to obtain rewards from God even after his/her death.

Second, the dedication of a property must be for perpetuity (Abu-Zahrah 2007). In other words, once a property is endowed as a *waqf,* it remains so to ensure regular and continual support to the beneficiaries. All schools of law except the Maliki insisted on the perpetuity of the dedication of the property. The Hanafi jurists, for instance, take the view that the object of a *waqf* must be converted to *waqf* for eternity, with the founder losing his rights to the property (Leeuwen 1999). The Maliki jurists, on the other hand, consider a *waqf* as a gift of a usufruct of a corpus, binding on the founder so long the corpus exists, but with the ownership of the asset remaining with the founder (Layish 1983; Abu-Zahrah 2007). Distinctively, the Maliki jurists advocate that *waqf* shall not necessarily be in perpetuity. Although some scholars refute that perpetuity contributes to the rigidity and inefficiency of *waqf* (Kuran 2001), it does constitute the main difference between *waqf* with other forms of charity in Islam, as well as to inheritance in Islam (Sait and Lim 2005). In the case of inheritance, the ownership of a property remains the property of someone, while in *waqf* the ownership of the property is relinquished or implies the relinquishment and the permanence of the stipulation of the *waqf* founder (Hasan 2007; Toraman et al. 2007). According to Cizacka (1998a), a perpetual *waqf* is now defined as one which survived for more than a century.

Third, a property is subject to inalienability once it is created as a *waqf* (Abu-Zahrah 2007). The restriction is related to earlier condition of an absolute transfer of ownership of a *waqf* property to God once a *waqf* is created. Thus the property cannot be subject to any sale, disposition, mortgage or gift, inheritance or any kind of inalienation. In this respect, the Hanafi School of law allows the sale or exchange (*ibdal* or *istibdal* arrangements respectively) of a *waqf* property as a means of diversifying the management of *waqf* and thus developing the property (Abu-Zahrah 2007). Discussions on these innovative *waqf* transactions are presented in the following sub-section.

In addition, the Maliki jurists imposed the restriction that only a maximum of one-third of the inheritable property shall go to *waqf* (Layish 1983; Powers 1993). A similar restriction was imposed by the jurists of the Hanafi School of law, stipulated in the main source of its *waqf* jurisprudence, *al-Khassaf* (Leeuwen 1999). The restriction is imposed as *waqf* could potentially be used to express a preference in devolving inheritable property and thus it safeguards the interest of the legal heirs. Jurists from the other two schools of law (i.e. Hanbali and Shafi'i), however, did not explicitly stipulate any restriction on the quantity of property for the purpose of *waqf*.

2.2.2.3 The *Ibdal* (Sale) or *Istibdal* (Exchange) of a *Waqf*

The *ibdal* arrangement involves an actual sale of a *waqf* property while the *istibdal* entails a purchase of another property to replace the former *waqf* property and is commonly referred to as an exchange of a *waqf* property (Mahamood 2006; Abu-Zahrah 2007; Mohsin 2009). The main intention of these arrangements is to offer better alternatives in ensuring the perpetuity of *waqf*. The emergence of *istibdal* arrangement is based on the fact that a *waqf* property cannot be sold. The opinion of Muslim jurists on the *ibdal* or *istibdal* arrangements was divided but many of the developments in these arrangements make reference to the jurisdictions of the Hanafi school of law that generally allows flexibility and diversification in the management of *waqf*. As far as the Maliki and Shafi'i jurists are concerned, they strictly prohibit the sale or exchange of a *waqf* property. According to the Shafi'i jurists, *waqf* is an absolute contract dedicating a property to God and thus it cannot be sold, transferred or alienated by any means and thus they argued that both the *ibdal* and *istibdal* are in fact instruments to destroy *waqf* properties. The Maliki jurists are less stringent and allow such arrangements on condition that it has become impossible for the property to fulfil its original purposes, the returns are insufficient for maintenance purposes and the founder had permitted such arrangements (Cizacka 2000b). If such stipulations are not found in the *waqfiyya*, the sale and exchange arrangements are in essence prohibited (Layish 1983). However, Muslim scholars generally agree that if the property is not fit and not generating revenues sufficient to cover its expenses, sale and exchange arrangements are allowed subject to the approval by the judge and the ruler of the respective state, in the interest of the beneficiaries and the *waqf* (Leeuwen 1999).

These arrangements have been widely practised in the Ottoman Empire since the eighteenth century. For instance, Egyptian law has allowed the *istibdal* transaction on a *waqf* property but with the permission of the ruler (Singer 2008). Hoexter (1998) found that the *istibdal* arrangements were positive diversifications in the case of *waqf al-Haramayn* in Algiers. The *istibdal* arrangement in particular, has regained considerable attention in the twentieth century in a wake of the *waqf* revival, as numerous *waqf* properties suffered dilapidation, or become run down and some may even been demolished during the colonial period (Cizacka 2000b). The *waqf* administrator in Singapore, *Majlis Ugama Islam Singapura* (Muslim Religious Council of Singapore [MUIS]), has extensively used this innovative *istibdal* arrangement in developing its limited *waqf* properties (Karim 2010). Mahmood (2006) also investigated the possibility of executing the *istibdal* arrangement in one of the states in Malaysia, the Federal Territories.

2.2.2.4 The Cash *Waqf*

Cash *waqf* has made a distinctive contribution to the contemporary *waqf* revival in most of the Muslim countries including Kuwait, Qatar, Bangladesh, Pakistan, Malaysia, Singapore and Indonesia. It is instrumental in providing a capital injection into the urban economy and a means of borrowing money on relatively stable terms (Leeuwen 1999; Ahmed 2007; Toraman et al. 2007; Mohsin 2009). However, Muslim jurists have disputed the introduction of cash *waqf*. Assets such as cash and shares seem to have a problem with ‘permanency in value’ and as a result do not constitute perpetuity despite their consensus on *waqf* of movable properties (Mandaville 1979; Mohsin 2009).

They differ from the ordinary real estate *waqf* in that its original capital, or corpus, consists purely or partially of cash (Cizacka 2000a; Toraman et al. 2007).

Jurists of the Shafi'i, Maliki and Hanbali schools of law approved *waqf* of a movable property provided the original capital of the *waqf*, the corpus, should not diminish due to consumption and should be renewable from time to time by its usufruct (Cizacka 2000b). According to the view of Imam Zufar of the Hanafi school of law, cash deposited as a *waqf* can be invested in form of a capital for *mudharaba*[20] partnership and the profit will then be spent in accordance with the conditions of the *waqf* (Mandaville 1979; Cizacka 1998b; Leeuwen 1999; Cizacka 2000a, 2004; Mohsin 2009). Based on this jurisdiction, cash *waqf* were widely practised in Anatolia and the Balkans, but Cizacka (2000a) claimed that they were seldom invested in the *mudharaba* partnership as initially affirmed, but rather they were invested through constant returns, fluctuating within a narrow margin. A similar practice of cash *waqf* was discovered in Syria, Egypt and India, and can be attributed to the lack of proper Islamic financial institutions during the period.

The foregoing discussions provide good reasons for the view that *waqf* has been subject to social, political and economical evolution in Muslim worlds (Raissouni 2001). Its ubiquitous practice since its inception and its all-encompassing characteristics opened up a series of questions touching on some basic understandings of society and culture. Table 2.1 provides a summary of the legal framework of *waqf* according to different *madhabs*.

[20] *Mudharaba* is a profit-making activity with combined inputs (shared by the respective capital, and physical and/or mental labour providers). Loss is borne only by provider of the capital Hasan, S. 2007. *Philanthropy and social justice in Islam*. Kuala Lumpur: A.S. Nordeen, p. 342.

Table 2.1: A Summary of Legal Framework of Waqf According to Madhabs				
Madhabs	**Hanafi**	**Maliki**	**Hanbali**	**Shafi'i**
Conditions of Validity	**Jurisdictions**			
Waqif (founder)	Required	Required	Required	Required
Waqfiyya (deeds of *waqf*)	Required	Required	Required	Required
Mawqfuf alayh (beneficiaries)	Required	Required	Required	Required
Mawquf (a specific property)	Required	Required	Required	Required
Restrictions on *Waqf*	**Jurisdictions**			
Perpetuity	Yes	No. A property can be dedicated as a *waqf* for a specified time	Yes	Yes
Irrevocability	Yes but the ownership of the corpus continues to be with the founder but he is are prevented from exercising it	Yes, but the ownership of the corpus continues to be with the founder and may revert to the founder	Yes, and the ownership of the corpus belongs to the beneficiaries	Yes, and the ownership of the corpus is relinquished from founder (implying an absolute transfer to God)
Inalienability	Yes, but the *Ibdal/Istibdal* (Sale/Exchange) is allowable provided being stipulated by the founder or approved by the judge or the ruler	Yes, but the *Ibdal/Istibdal* (Sale/Exchange) is allowable if necessary and less stringent on movable assets	Yes, but any *Ibdal/Istibdal* (Sale/Exchange) arrangement is not explicitly mentioned	Yes, and it strictly prohibits any *Ibdal/Istibdal* (Sale/Exchange) arrangements
One-Third Restriction on *waqf*	Dedication as *waqf* must not be more than one-third of the total estate	Dedication as *waqf* must not be more than one-third of the total estate	No restriction	No restriction
Cash *Waqf*	Valid and unrestricted	Valid but subject to preservation and non-consummation of the original capital	Valid but subject to preservation and non-consummation of the original capital	Valid but subject to preservation and non-consummation of the original capital

2.2.3 The Objectives and Importance of *Waqf*

2.2.3.1 The Objectives of *Waqf*

The creation of *waqf* serves two broad objectives of charitable deeds in Islam: oneself and society (Raissouni 2001; Deguilhem 2008). It reflects the spirit of Islamic injunctions on charitable deeds, which rest on oneself first, followed by society. In a personal context, the altruistic act of giving away properties as a *waqf* is religiously motivated to demonstrate the gratitude for bounties enjoyed and an acknowledgement of blessings, as well as seeking to please of God (Hasan 2007). Endowing properties as *waqf* purifies the soul and saves it from the worry, fear and covetousness surrounding money as it "*takes alms of their wealth, wherewith thou mayst purify them and mayst make them grow*" (Lev 2005), p. 613). The process of wealth creation and accumulation would normally trap a person in its demands and thus *waqf* comes as a reminder to endeavour towards the forgiveness accorded in the hereafter. Thoughts of seeking the pleasure of God and the reward in the hereafter are reflected in historical *waqf* documents and inscriptions.

With regard to the society, the creation of *waqf* demonstrates the care of an individual towards the community by providing them with basic facilities needed such as schools, hospitals, bridges and shelter. Short-term charities for these basic necessities are short-lived and scarce since the supremacy of greed and selfishness prevails in the present-day materialistic society. The underlying spirit of *waqf* habituates people to exercise their duties to the public as stipulated in the Qur'an[21], ensure the basic needs of the society and that needy citizens are provided for in a lasting and guaranteed way. Moreover, the act of endowing properties to the public habituates individuals to thinking of and planning for the future generations. Doumani (1998) established that historical evidence show that in Nablus and Tripoli it was required that a portion of the annual revenue of *waqf ahli* be spent on good deeds alongside the internal solidarity of their families.

[21] "*The true believers are those only who believe in Allah and His Messenger and afterward doubt not, but strive with their wealth and their lives for the cause of Allah*".

2.2.3.2 The Importance of *Waqf*

The central role of *waqf* in Muslim society was described by historian Marshall Hodgson in (Singer 2008) as ‘the vehicle for financing Islam as a society’ supporting religious, social, cultural, and economic activities, while equally serving political functions. Its contribution to human civilisation in the Islamic regions was highly significant and it went far beyond normal charity (Hoexter 1998a). In her investigation on the *Waqf al-Haramayn*[22] in Algiers, Hoexter (1998) was assured that *waqf* was a continuous charity that provides security and irreversibility to charitable acts. The flexibility of *waqf* allows its benefits be enjoyed by a wider range of communities, unlike *zakah* that can only be utilised by the eight groups of *asnaf* (*zakah* beneficiaries) explicitly mentioned in the Qur’an. Numerous studies on *waqf* institutions have uncovered these pivotal roles of *waqf* contributed to societies and states/leaders (Layish 1983; Powers 1989; Cizacka 1998a, 2000b; Nagata 2002; Mahamood 2006; Abu-Zahrah 2007; Latiff et al. 2008; Singer 2008; Mohsin 2009; Abdallah 2010; Wafa 2010).

Since the inception of *waqf* up to the present day, *waqf* institutions have significantly contributed to the civilisation of Muslim societies in strengthening religious practices, imparting knowledge and enhancing education as well as transmitting culture within the Muslim societies. The first mosque erected by the Prophet Muhammad (Peace be upon Him) upon his arrival in Madinah, the Mosque of Quba, was endowed as a *waqf*. From its inception, the mosque was instrumental in reinforcing religious practices and functioned as a centre of education, culture and administration (Latiff et al. 2006; Abu-Zahrah 2007; Latiff et al. 2008). Since then, endowing mosques and related institutions has been common in Muslim communities. Religious schools for the

[22] *Waqf al-Haramayn* was a public foundation created in Ottoman-ruled Algiers in the seventeenth century responsible for the management of properties and the transfer of their proceeds to the legal beneficiaries, namely the guardians and poor inhabitants of the two Holy cities of Mecca and Medina Hoexter, M. 1998a. Endowments, rulers and community: Waqf al Haramayn in Ottoman Algiers. *Studies in Islamic Law and Society* 6. It was the largest public foundation in Algiers controlling 1,748 properties in and around Algiers. The foundation controlled two categories of endowments. The first included assets endowed to benefit the poor of the holy cities, either exclusively or jointly with either the Great Mosque of Algiers or the *Waqf* al-Andalus. The second comprised other endowments. The *waqf* administered in accordance to the Hanafi School despite the majority of the population in Algiers were loyalists to Maliki. *Waqf al-Haramayn* was also present in other cities of Istanbul, Cairo and Damascus, reflecting the strong religious recommendations on pilgrimage, the *hajj* Hamouche, M. B. 2007. Sustainability & urban management in old Muslim cities: The role of pious foundations. *Journal of King Saud University (Architecture & Planning)* 19(2), pp. 27-48.

elementary education and the memorisation of the Qur'an, as well as libraries, were set up within the vicinity of the mosques to enjoy the benefits of *waqf*. Some of these religious schools later evolved and became higher institutions (e.g.universities). The oldest university in Morocco, the University of al-Qarawiyin is believed to be the greatest example of the involvement of *waqf* in the development of higher education (Raissouni 2001). Similarly, the famous Al-Azhar University in Egypt has been receiving *waqf* resources to finance its operation (Cizacka 2000b).

In other parts of the Muslim world, *waqf* has greatly contributed in reinforcing the practice of Islam, enhancing education and transmitting culture. For instance, numerous *madrasahs* (religious schools) and colleges in Bangladesh and Pakistan were financed by *waqf* resources (Sadeq 2002a; Sadeq 2002b). In Malaysia, *waqf* has also contributed significantly to strengthening Islamic education via the establishments of *madrasahs* or *pondok* (religious schools) and *maahad tahfiz* (schools for memorising the Qur'an) (Latiff et al. 2006; Mahamood 2006; Latiff et al. 2008; Wafa 2010). The significant involvement of *waqf* in the field of education was claimed to have influenced the creation of some of the great educational institutions, such as Merton College at Oxford University (Gaudiosi 1987) and Harvard University (Setia 2011).

In addition, for centuries the social welfare of Muslim societies, including the provision of public works, bridges, hospitals, schools, libraries, orphanages and so on, was provided by this dynamic and multi-purpose institution of *waqf*, (Mandaville 1979; Cizacka 1998a; Leeuwen 1999; Sadeq 2002b; Hasan 2007). For instance, a public kitchen that fed up to four hundred of 'the poor and pious, the weak and the needy' in Jerusalem operated entirely with the revenues of *waqf* in the surrounding area (Leeuwen 1999). In addition, it is claimed that a road from Baghdad to Makkah was constructed by a *waqf* created by the wife of Caliph Harun al-Rashid (Sadeq 2002b). The importance of *waqf* became more apparent in the provision of social welfare with the introduction of cash *waqf* during the Ottoman period in the sixteenth century (Sadeq 2002b; Cizacka 2004; Toraman et al. 2007; Mohsin 2009). Cash *waqf* acted as a middle fund, providing mutual aid and social security to members of the fund to help relieve the burden of members in cases of burial services, supplying religious costs, supplying food, fuel and clothes for unemployed people and helping people who had been exposed to natural disasters. Cash *waqf* were also commonly used to provide financial assistance to widows, orphans, needy students and in some cases to help villages to pay their taxes, paying for the maintenance of district and villages roads.

Furthermore, the importance of *waqf* in the field of the economy can be mainly attributed to the reduction in government expenditure and thus a better distribution of income. Cizacka (1998; 2000) asserted that the functions can be executed through voluntary donations by the well-to-do to finance various social services in the society. As a result, the government will have smaller budget deficits and lower borrowing requirements, which eventually leads to a reduction in the interest rate, which is conducive for private investment and thus economic growth. The introduction of cash *waqf* extended the role of *waqf* to the expansion of economy. For instance, its capital injection significantly improved the progress of the Ottoman economy. This cash *waqf* capital was utilised to finance public goods and services such as education, public works, health and religious services (Cizacka 2004; Toraman et al. 2007; Mohsin 2009). In Bangladesh, pooled cash *waqf* were utilised not only to finance *madrasahs* (religious schools) and universities but also shopping complexes and commercial centres (Sadeq 2002a; Sadeq 2002b). Meanwhile, the Indonesian *Waqf* Fund created by the Dompet Dhuafa Republika exploits cash *waqf* in various forms of productive investments, which include the *mudharabah* savings, equity participation in industries and development of small and medium-sized industry, to enhance the economic position of Muslim communities in Indonesia (Chandra and Rahman 2010).

Historical evidence has revealed that *waqf* also played a significant role in establishing and strengthening power of states, imposing loyalty to rulers/leaders, and cultivating favourable reputations (Kuran 2001; Singer 2008) For instance, the motives behind the creation of *waqf* by the imperial power[23] in Damascus during the Ottoman period can probably be situated somewhere between personal aims and political interest (Leeuwen 1999). Sultan Selim was described to have endowed an enormous *waqf* for the construction of a mausoleum, a convent and a soup-kitchen upon conquering Damascus to signify his power and authority over the newly- conquered lands. Later, a law-school

[23] The two prominent imperial *waqf* (also known as *sultanic waqf*) were created by the Sultan Selim in 1516 and Sultan Sulayman in 1554. The former endowed for the benefit of the mausoleum, a convent and a soup-kitchen while the latter endowed agricultural land and real estate properties around Damascus for the benefit of a specific religious institution. Leeuwen, R. v. 1999. *Waqfs and urban structures: The case of Ottoman Damascus*. Leiden: Brill, p. 232.

in Damascus was endowed by Sultan Sulayman, fundamentally to establish his influence on scholars and *ulama* (religious scholars) during the transition from the predominantly Shafiite legal system to the Hanafite system. Similarly, the social services supplied to constituencies during the period of Haseki Sultan were in fact extending his patronage as well as consolidating the Ottoman government's political authority (Peri 1983). Furthermore, an endowment or simply a gift to a modern university, which is commonly acknowledged by attaching or inscribing names to the structure of the property endowed, may affirm the donors' special prominence, immortalising their reputations in the institution, and securing a public perception of their civic-mindedness (Kuran 2001).

The creation of *waqf* is also argued to have had an important role in supporting and reinforcing social units or social groups based on kinship, or other criteria such as social class, profession, territory, religion, ethnicity and national identification (Baer 1997). The normal practice of involving family descendents in the administration of *waqf,* even in modern history, is believed to have developed cohesive relationships within social units or family members. If family members were stipulated as the *waqf* administrators, they would continue to enjoy material advantages indefinitely, unless stated otherwise in the *waqfiyya* (deed of *waqf*) and more importantly, to retain social status and political implications. For instance, the al-Husayni family retains the social status of being the Prophet Moses' (Peace be upon him) descendants by having been the administrators for his *waqf* situated in Jerusalem since the Ottoman period.

The role of *waqf* in establishing a cohesive social structure is more apparent in *waqf khas*. For instance, the creation of *waqf ahli* could ensure the transmission of usufruct rights of an individual's properties down his/her future generations. The imperial *waqf* during the Ottoman period in Damascus was purposely created for the benefit of a line of descendents (Leeuwen 1999). Assets endowed as *waqf ahli* remains within the family and are immune to any confiscation if there were economic and political instabilities. This was widely practiced in Istanbul and Egypt in the seventeenth and nineteenth centuries respectively, against massive land confiscation in the name of land reforms (Kuran 2001). In addition, flexibility in the *waqf ahli* allows an individual manoeuvring the devolution of property and discriminately expresses their personal preferences and desires to family members (Doumani 1998).

In contrary to the distinctive roles of *waqf* in the civilisation of societies and economies, there are scholarly works that have critically argued that the institution's performance in the economic sphere has been deficient. *Waqf* properties have been described as being resistant to market forces, creating evolutionary bottlenecks and locking vast resources into unproductive states (Shatzmiller 2001; Kuran 2004). According to Shatzmiller (2001), the lack of foresight contained in most *waqfiyya* has led to inadequate institutional arrangements to support the performance of the institution. Although they documented the details of the property endowed, as well as information of the founder, they were deficient in terms of future direction of the property. In another perspective on the *waqfiyya*, Kuran (2004) asserted the imposition to strictly abide the terms in the *waqfiyya* had resulted in vast resources being locked into states unproductive in the delivery of social goods and services. The *waqf* cannot respond to new developments surrounding them, such as new technology, management techniques or expertise as it must pursue the founder's instructions stated in the *waqfiyya*. Despite this deficiency, both the administrators and the *kadis* (Muslim judges) have resorted to *waqfiyya* in resolving most of *waqf* conflicts. They lacked power to institutionalise alternative institutional arrangements such as budgets, accounting statements, or future needs and anticipated income that promised to offer better management of the *waqf* properties. This was essentially because they had to execute the instructions of the *waqf* founder as stated in the *waqfiyya*, which was decreed by jurists.

In addition, Shatzmiller (2001) claimed that the divergent *fatwas* (advisory opinions of the Muslim scholars) with regards to the transfer of ownership of the endowed properties from privately owned to 'public ownership' had resulted in an inherent confusion of property rights. Defending the rights of the endowed property against illegal occupations and claims, in particular, turned out to be problematic and thus attracted abuses and misappropriations, or those aptly known as 'free-riders', who enjoyed unprecedented benefits. On the other hand, Kuran (2004) argued that another related difficulty with regard to *waqf* lay in its lack of legal status as a self-governing entity. The inability of a *waqf* institution to modify its rules of operation, change its mission and reallocate resources had prevented them from advancing in strengthening civil society. Exploiting ambiguities in the founder's stipulations would have invited accusations of impiety. Since a vast array of public goods in the Middle Eastern countries were provided by *waqf*, the inherent inflexibilities of *waqf* could have caused stagnation in the economies of these countries (Kuran 2004).

2.2.4 The Management of *Waqf*

In principle, *waqf* was a private arrangement but purely a civil institution (Abdallah 2010). It was organisationally and financially independent from state apparatuses. From the perspective of the *Shari'ah* law, the *waqif* (founder) determines the type of *waqf* management of his/her *waqf*. A *waqif* may appoint himself as the administrator or another party as a manager or a trustee (known as *mutawalli*) for the *waqf* during his lifetime or after his death. A *mutawalli* is primarily responsible for administering the *waqf* property in the best interests of the founder and the beneficiaries, which includes preserving the property, and developing it in order to maximise the usufruct of the property according to the generally expected standards of behaviour and values within Islam (Gaudiosi 1987; Sait and Lim 2005). Jurists of the Hanafi and Shafi'i schools of law made a provision to allow the founder himself or a member of endowing family to be the *de facto* administrator (Leeuwen 1999; Shatzmiller 2001). The case where the Ahrari family managed the Ahrari *waqf* in Kabul provides historical evidence that the appointment of an administrator closely connected to the founder led to good results and good management (Dale and Payind 1999). However, the Maliki jurists did not permit the founder or their families to act as the administrator of a *waqf*. The appointment of a *mutawalli* should be included as part of the terms of *waqf* and be documented in the *waqfiyya* for the reference of future generations since *waqf* is an eternal contract. The *waqf* document usually mentions how the *mutawalli* is compensated for this effort, and the document does not mention any compensation for the *mutawalli*; he/she either volunteers for the work or seeks assignment of compensation from the court (Al-Amin, 1997 in (Toraman et al. 2007).

As *waqf* gained its importance within societies and contributed significantly to social and economic progress, Islamic jurisprudence accorded the judiciary (Islamic courts consisting of Muslim judges) an essential role in supervising and resolving conflicts of *waqf*, namely, in the areas of jurisprudential, administrative and fiscal matters (Abdallah 2010). The primary objective of the judiciary empowerment was to reinforce the position of *waqf*, and to realise the conditions of those making the dedications, as well as to sustain the development activities of *waqf*. These conditions were critical at times when the institution was shifting from individual management to a collective or institutionalised establishment, for the sake of improving its viability and protecting from manipulation. As *waqf* flourished to its peak of development during the Ottoman Empire, the Islamic courts continued to supervise all *waqf* properties and manage public *waqf* while individuals were left to manage their *waqf ahli* (Mohsin 2009). It was towards the end of the Ottoman Empire that the trusteeship of all *waqf* was shifted from private individuals and Islamic courts to a centralised administration, directly under the supervision of the Ministry of *Waqf*.

Numerous studies on the administration of *waqf* institution have claimed that the centralisation and nationalisation of the *waqf* administration led to mismanagement and abuses of the *waqf* system (Cizacka 1998a, 2000b; Sait and Lim 2006; Mohsin 2009; Abdallah 2010). The nationalisation of *waqf* administration via the centralisation policy continued during the European colonisation, which took place in almost all Muslim countries. The revival of the *waqf* institution in the last two decades, however, has taken place under the umbrella of centralisation and public sector trusteeship despite the discouraging historical experiences of *waqf* association with the states. The present involvement of governments in the revival of *waqf* transcend beyond the historical supervisory roles, appointing or removing trustees and resolving disputes or confiscation of *waqf* assets and properties. Primarily, government's association with *waqf* focuses in reorganisation, modernisation and development of *waqf* institutions (Islahi 1992). Among the initiatives are the establishment of centralised consultative committee to coordinate and facilitate waqf restructuring. The General Awqaf Directorates was formed to facilitate the improvement of *waqf* system in Turkey (Cizacka 1998a, 2000b). State's involvement is vital in modernising *waqf* management and thus be competitive with other socio-economic institutions. *Waqf* institutions were alleged to institute rigid operational conditions and thus led to inefficiency and unproductivity (Kuran 2001; Kuran 2004). Muslim contries have modified the laws on *waqf* to allow more flexibilities (Babacan 2011), such as allow *ibdal* (sale) and *istibdal* (exchange) of waqf assets and properties to address the scattered, dilapidated and uneconomic waqf assets. In other case, nationalisation of *waqf* was undertaken to improve the administrative system from being mismanaged by individuals (Mahamood 2006). In most cases, vast administrative machinery and financial resources were deployed by states for the purpose of *waqf* development, which would not always be feasible by private entities or individuals. These positive roles would entail the *waqf* institution in performing the same role in the provision of public goods and services which it performed in the past. The experience of some Muslim countries in the management of *waqf* is presented in the following section.

2.3 The *Waqf* Management Experiences in the Muslim World

Although *waqf* has evolved more systematically since its inception in the seventh century, it has gone through considerable phases of growth and downturns (Cizacka, 2000). Its expansion and contribution continued to flourish during the Ottoman Empire, under which one was likely to find a *waqf* wherever there was a Muslim community (Raissouni 2001; Sait and Lim 2005). Nonetheless, the literature claimed that *waqf* institution in most Muslim countries almost came to stagnation during the period of European colonisation (Cizacka 1998a, 2000b; Mohsin 2009). Only in the late nineteenth and twentieth centuries did this exceptional institution regain attention and was revived in most Muslim countries. With the considerable phases of evolution that it has been through, *waqf* has inevitably been influenced by the political, economic, and social conditions of its environment (Sait and Lim 2005). Thus, perusing the invaluable experiences of the past, the thriving and the turbulent phases of *waqf* may offer some lessons in re-developing a modern legal and administrative system of the *waqf* institution. The modernisation of *waqf* management aimed to deliver a more transparent and responsive institution with modern management structures that can not only rival the western charitable institutions, but also constitute a remarkable economic entity in the Muslim worlds. In the light of this objective, the following sections outline the management experiences of *waqf* institution during the Ottoman Empire and the Western colonisation period, as well as the recent development of *waqf* in the twentieth century.

2.3.1 The Ottoman Empire

The Ottoman Empire, stretching from the Balkans and the Black Sea region through Anatolia, Syria, Mesopotamia, the gulf to Egypt, and most of the North African coast, lasted until World War 1 (Pamuk 2004). *Waqf* was a key public institution for the Ottoman Empire (Gerber 2002). One-third of the total land conquered by the Empire constituted of *waqf* land (Sait and Lim 2005). The growth of *waqf* in the Ottoman period can be attributed to the fact that they provided the majority of social services in the Ottoman states (Hoexter 1998a). Generally, the larger *waqf,* known as imperial *waqf* or *sultanic waqf,* were created by rulers or members of the ruling elite, while on rare occasions, smaller *waqf* were established for the benefit of a group of residents in a particular locality (Sait and Lim 2005). For instance, Sultan Selim of the Ottoman government in Syria immediately endowed an enormous *waqf* for the benefit of an Andalusian mausoleum, a convent and a soup-kitchen connected with it, upon conquering Damascus. Later, another ruler of the Ottoman government, Sultan Sulayman endowed agricultural lands and real estate properties in and around Damascus for a specific religious institution, a Hanafite Law School (Leeuwen 1999).

The good management practices of the endowments and their income, diversifications of the endowment activities and the support from the government were argued to have contributed to the expansion of *waqf* during the Ottoman period (Hoexter 1998a, b). She studied the income registers of the *waqf al-Haramayn,* during the Ottoman Empire in Algiers for the years 1667-68 to 1829-30, and found that these registers appeared record detailed information of properties endowed for the *waqf.* There were short descriptions of each asset, its annual rent, the name of lessees, a list of actual rent payments, the type of lease, information of exchange transactions in which the assets was involved, and sometimes details about the founder of the endowment. The information is paramount for an effective management of properties.

State intervention via centralisation and nationalisation of *waqf* activities was widespread during the Ottoman period. The modernisation of *waqf* management was in response to the expansion of the empire and thus the economy pushed the government to centralise *waqf* management. Since a huge part of land in the Ottoman Empire was controlled by the *waqf* system, the state was being deprived of considerable potential revenue deriving from land taxes. Thus centralising *waqf* management was crucial to maximise the Ottoman government's control on *waqf* as a source of revenue that subsequently supported them to sustain the ever-increasing financial needs of the state (Cizacka 2000b).

The modernisation process of the Ottoman government started off in the sixteenth century with significant restructuring of the Ottoman legal system by reconciling administrative concepts introduced by the Ottoman authorities and customary practices or local usages, with *Shari'ah* law, including that of the *waqf* management (Leeuwen 1999). Several measures were imposed to systematise *waqf* management practices and to increase the control of the state. First, *kadis* were empowered to establish the validity of *waqf* based on the Hanafite jurisdiction. Second, rulers were given more rights in relation to appointments and replacements of *waqf* officials, even if the founders had reserved rights for the trustee. Third, the *istibdal* (exchange arrangement) was allowed with the permission of the rulers. Fourth was the legalisation of cash *waqf* for providing a capital injection to the urban economy and as a means of borrowing money at a relatively stable condition.

In Egypt and Syria, the entire *waqf* management underwent a restructuring process that led to the centralisation of *waqf* management and increased state control (Leeuwen 1999). The restructuring process in Egypt was claimed by the Ottoman government to be about improving the overall *waqf* management that had been overshadowed by mismanagements and misconducts during the Mamluk regime. Special officials were appointed to check the administration and budgets of *waqf* as well as demanding the supply of annual financial surveys and the collection of revenues statements by administrators of public *waqf* and imperial *waqf* (Leeuwen 1999). In addition, the flexibility of the system which introduced such mechanisms as *istibdal* was instrumental in coordinating private interests and the interest of *waqf*. A similar centralisation of *waqf* management was undertaken in Syria, where trustees were summoned to hand over *waqf* inventories for the purpose of securing the status of *waqf*. At the same time, the transfer of the management of Al-Qawariyyin Mosque to a central *waqf* officer marked the centralisation of the *waqf* administration in Morocco in the sixteenth century (Cizacka 2000b). However, during this time, *waqf ahli* in Morocco maintained its substantial autonomy in terms of management.

Cash *waqf* served a crucial function in the economic, political, and social development of the Ottoman government (Mandaville 1979; Cizacka 1998b, 2004). Cash *waqf* was approved by the Ottoman courts at the beginning of the fifteenth century and by the end of sixteenth, they had become extremely popular all over Anatolia and the European provinces of the empire, particularly in the Turkish- speaking regions. Cash *waqf* functioned as capital distributed as credit to borrowers and the return from this investment was spent for religious and social purposes (Cizacka 2000b; Singer 2008). The pooled capital from cash *waqf* was instrumental in the silk industry in 1749-85 as well as creating a secondary money market, known as *sarrafs*[24] in Istanbul. However, the rate of interest that did not change over the long period despite the changes in economic conditions was argued to be the cause of the substantial decline in the importance of cash *waqf* in the first decade of the twentieth century (Cizacka 2000b).

Efforts to modernise the administrative system of the Ottoman government via the centralisation process became apparent by the end of the eighteenth century. The existing local centres of *waqf* administrations were consolidated and transferred into a centralised administrative system of *waqf* based in Istanbul (Crecelius 1971; Deguilhem 2008; Mohsin 2009). The *Waqf* Ministry was eventually established in the second half of the nineteenth century during the reign of Sultan Mahmud II to take charge of the overall *waqf* management of the entire Ottoman Empire (Cizacka 2000b; Hamouche 2007). The apparent implication of the modernisation drive was direct state interference in the management of the *waqf* properties, namely, the appointment of a trustee on the approval of the ruler (Cizacka 2000b). However, this renewed focus on *waqf* via the centralisation was expected to improve the resource mobilisation and redistribution to enhance security of tenure, and for the urban poor.

Arguably, the centralisation drive of *waqf* management has social (Mohsin 2009) and legal implications (Cizacka 2000b). It created unemployment among the trustees who were appointed by *waqf* founders. In addition, *waqf* were no longer managed by trustees who could protect the interest of the founders, but instead by the officials hired by the Ottoman government who were primarily seeking salaries and not the protection

[24] *Sarraf* was a secondary capital market in the Ottoman economy in which cash *waqf* was invested by borrowers and *sarraf* would provide a higher rate of return to the merchants and farmers Cizacka, M. 2000b. *A history of philanthropic foundations: The Islamic world from the seventh century to the present*. Istanbul: Bogazici University Press.

of the founders' interest (Mohsin 2009). As far as the legal implications were concerned, Cizacka (2000b) argued that subjugating *waqf* under the central authority often involved violations of its legal personality and subsequently its autonomy ended up being subjugated. Among the culprits of this centralisation of *waqf* management was the al-Azhar education system.

Cizacka (2000b) also argued that the centralisation of *waqf* management had affected the development of cash *waqf* within the empire (Cizacka 2000b) and in essence the decline of cash *waqf* was concomitant with the decline and death of the Ottoman Empire in Istanbul. Cash *waqf* fell under the jurisdiction of the Ministry of the Imperial Endowments. The court via Article 14 instructed trustees to send all annual returns not specified for social services to the treasury. All endowed cash had to be converted into bank shares under the auspices of the Bank of Pious Foundations (Evkaf Bankasi), destroying whatever was left of the judicial personality of the cash *waqf* (Cizacka 2000b; Toraman et al. 2007; Singer 2008).

According to Crecelius (1991) who explored the *waqf* created by one of the *mamluks*[25], Muhammad Bey Abu-Dhahab[26], its financial management was handled in a highly commendable manner during that time. Disbursements of stipends to students and teachers, and religious and administrative personnel were recorded appropriately. The list of assets did distinguish between the land and buildings and the management of the *waqf* also provided the descriptions of the legal steps in case there were legal disputes over the authenticity of the *waqf*. In terms of administrating the *waqf*, the *mutawalli* (here known as the *nazir*) was empowered to relieve anyone in this position for non-performance of duties. He could also make new appointments without the interference of courts.

[25] Mamluks were originally slave soldiers who won political control in Muslim states such as Egypt and Syria.

[26] The large mosque, which was constructed in 1774 by Muhammad Bey, was regarded as the last great religious edifice erected during the *Mamluk*-Ottoman period (i.e18th century).

2.3.2 The Colonisation of Muslim Countries by the Europeans

The European colonisation of most of the Muslim countries was unprecedented in Muslim history and significantly affected the civilisation, cultural, economic, and political sphere of the colonised countries (Cizacka 2000b). The British colonists and their European counterparts preferred a status quo at the beginning of their rule to ensure stability and social legitimacy, and more importantly as this would not lead them to becoming involved in sensitive religious affairs. Furthermore, it was alleged that the entire *waqf* institution seemed ‘inscrutable’, as it differed from Western charitable trusts. Nonetheless, these colonial powers gradually worked on the centralisation and imposed regulations on the management of *waqf* in the name of management reform. They perceived the *waqf* lands were inefficient, inequitable and uneconomic, and consequently led to backwardness in the development of the land (Sait and Lim 2006). Such perception necessitated their interference with the existing *waqf* system at that time, particularly, the *waqf* lands, with the establishment of modern private property regimes and the restructuring of landholding for purposes of agricultural modernisation and development (Singer 2008). Literature on *waqf* management has largely asserted that the centralisation and over-regulation that led to nationalisation of *waqf* management were the antecedents of the stagnation in the *waqf* progress commencing in the mid-twentieth century (Cizacka 1998a, 2000b; Sait and Lim 2006; Mohsin 2009).

For instance, British Rule over the Indian sub-continent (India, Pakistan and Bangladesh) and parts of the Southeast Asia, namely, Malaysia (or Malaya as it was then) and Singapore had significantly influenced the Islamic law of the respective colonies via the rulings of the Privy Council. In the Indian sub-continent, the conflict between the British government, which acknowledged the policy of non-interference policy with Indian Muslims and the East Indian Company, which was granted the power to make laws in India were referred to this Privy Council, thus resulting in a subtle erosion of the *Shari’ah* law and thus the Indian *waqf* system (Cizacka 2000b). The rulings eventually grew into an independent legal system, substantially different from pure Islamic law, which became known as Anglo-Muhammadan law (Cizacka 2000b).

Although Ahmed and Khan (1997) claimed that there was no accurate account of *waqf* being developed in India during British Rule, the British regulatory system, land tenure and administration seemed to have created hurdles for the creation of new *waqf* and discouraged the development of *waqf*. According to Cizacka (2000b), the Indian *waqf* system underwent several phases of regulatory changes during the British colonisation from as early as 1772. The introduction of land reformation was regarded as the earliest encroachment of British Rule in the Indian *waqf* system. Aiming at establishing private ownership of land and rendering it a freely tradable commodity, the British rulers introduced the 'Permanent Settlement' in 1793. As a result, private property rights were granted that allowed lands to be used as a security for loans and hence they could be confiscated by a creditor in default of repayments, as well as being traded and inherited.

The next step which had a profound effect on the Indian *waqf* system was replacing the *kadis* with British judges. The institution of *kadis* was abolished in 1864. The British judges applied the Islamic law of inheritance with more rigour than the *kadis* ever had. At the same time, British Rule divested its interest on all matters concerning *waqf* properties by 1863 with the promulgation of the Religious Endowment Act 1863. The apparent impact of this Act was a transfer of the *waqf* management of all pious *waqf*, which had previously been under the superintendence of the Board of Revenue, to trustees or managers (Ahmed and Khan 1997; Cizacka 2000b). Muslims reacted to the situation by creating family *waqf* to avoid the fragmentation of their newly acquired lands, which was not favoured by the British. In response to the widespread creation of *waqf ahli*, the Privy Council ruling denied its further establishment, claiming that the family endowments served only the interest of the founder's family and did not serve a pious purpose (Brown 2008). However, the Mussalman Wakf Validating Act 1913 was enacted aiming to make it lawful for a Muslim to create a *waqf* for the maintenance and support of his family, children or descendents (*waqf ahli*) but with no retrospective effect, and therefore it could not be construed as validating *waqf* deeds executed prior to the year 1913 (Ahmed and Khan 1997). The Act was also applicable to Pakistan and Bangladesh (the latter being part of Pakistan up until 1971).

It was only in 1923 that British Rule started to regulate the *waqf* management in British India with the introduction of the Mussalman Wakf Act 1923. The Act aspired to address the transparency and accountability of *waqf* administration. The act required the keeping and publication of appropriate accounts in respect of all *waqf* properties, as well as requiring the trustees to furnish a description of the property, gross annual income, gross income accumulated during previous five years, amounts payables as revenues, rents, and annual estimate of expenditure incurred, which essentially concerned with internal controls of *waqf* administration as well as its auditing functions (Ahmed and Khan 1997; Brown 2008). Prior to giving up independence to India, the British rulers introduced the *Waqf* Board and appointed a *Waqf* Commissioner via the Bengal *Waqf* Act 1934, further to strengthen the management of *waqf*. Both the Commissioner and the Board were expected to engage a power sharing in utilising *waqf* funds in accordance with the founder's intention. In Pakistan, the *Waqf* Ordinance 1961 and 1962 were two laws enacted for the West and Pakistan that placed the administration of *waqf* in the hands of administrators at provincial levels. Later in 1976, total centralisation took place in Pakistan, which transferred the provincial management to the Federal government. A similar situation applied in Bangladesh (then East Pakistan) as *waqf* administration was highly centralised. The *Waqf* Ordinance 1962 was still applicable in the newly established Bangladesh upon its split from Pakistan. The *Waqf* Commissioner become a *Waqf* Administrator to handle the internal control of the *waqf* administration (Cizacka 2000b). Provisions in the Bengal *Waqf* Act 1934 were adopted provided it did not contradict the 1962 ordinance.

The *waqf* management of Singapore was ruled by the same acts and legislations as Malaysia as it was part of Malaysia until its separation in 1965. The creation of *waqf* in Singapore was a popular method of overcoming rigidity in the laws pertaining to inheritance. *Waqf* properties, particularly land, were mostly created by Arab traders, as well as by the Indian Muslims who were mainly textile traders married to local indigenous Malays. Brown (2008) claimed that the distinction between public and private *waqf* in Singapore was obscure and the fundamental motive for the creation of a *waqf* by a wealthy patriarch was to avoid the fragmentation of his assets through taxation or family feuds. Most of the *waqf* lands created by them were acquired by the British government for urban regeneration or by Chinese capitalists. Further legislations on *waqf* in the 1950s and 1960s imposed greater centralisation and administration through MUIS (Singapore Islamic Council) and *waqf* trustees, acting in consultation with the government.

In Morocco, the French and Spanish protectorates seemed to have no interest in *waqf* land as they could have added costs to their administration and therefore the institution of *waqf* remained intact. The French abstained from any direct interference in *habous* or *waqf* affairs and put this institution under the control of the Ministry of Habous, which was empowered to control the monthly accounts of the *waqf* and could take decisions concerning long-term lease and *istibdal* of *waqf* properties (Cizacka 2000b). In addition, in the second half of the century as the pressure of the European powers increased, other concession were granted to the Europeans in the form of *istibdal*, which led to the usurpation of *waqf* properties (Cizacka 2000b).

2.3.3 The Revival of *Waqf* Management

Initially the institution *waqf* was part of a civil society and was meant to be a voluntary sector, independent from the state or the profit-making sector (Sait and Lim 2005). However, post-colonisation period witnessed the struggle of most Muslim countries to deal with nationalised and highly regulated *waqf* activities. Most Muslim countries directly or indirectly administered *waqf* lands through separate ministries, leading to the demise of the private and non-governmental identity of *waqf* (Sait and Lim 2006). The middle of the nineteenth century saw the European-inspired repudiation (perhaps due to earlier colonisation) of the *waqf* system in favour of a government-coordinated system for delivering public goods (Kuran 2001).

The Organisation of Islamic Cooperation (formerly known as the Organisation of the Islamic Conference [OIC]), an influential group of 57 member states and its specialised Islamic Development Bank (IDB), have been instrumental in promoting and developing *waqf* institution as well as in activating the role of *waqf* in Muslim societies (Sait and Lim 2006). The OIC has prioritised the promotion of *waqf* in its agenda by highlighting the distinctive contribution of the institution to education and health as well as to eradicating poverty. It has held numerous conferences, seminars and other discourses to raise awareness of the importance of investing in and developing *waqf* resources. The IDB has substantial *waqf* funds to be used for emergency aid and assistance to member countries in the event of natural calamities as well as for sponsoring education, health and other social programmes. To date, the IDB has been involved in providing direct project financing (urban land development in a North African country, a *waqf* commercial complex in a Gulf country and technical assistance), conducting numerous seminars and workshops on reforms in financial, legal and managerial, cooperation with *waqf*-related institution such as the Kuwait *Awqaf* Public Foundation (KAPF) and a data bank of *waqf* (Mahdi 2002). The IDB has also established a specialised training centre, the Islamic Research and Training Institute (IRTI), to undertake research in economic, financial and banking activities in Muslim countries and extending training facilities to personnel engaged in developmental activities of its member countries.

For the purpose of this study, the experience of several countries in reviving the *waqf* institution is presented. In Turkey, the centralisation and state intervention continue in the revival of *waqf* while the revival of *waqf* in Kuwait and Indonesia is led by independent organisations. The Indian sub-continent (India, Pakistan and Bangladesh) the government regulatory system was sustained in activating the functions of *waqf*. On the other hand, the *waqf* experiences of Singapore could also provide invaluable inputs to Malaysian *waqf* management as both countries shared a similar regulatory system and administrative structure, at least until the separation occurred in 1971.

2.3.3.1 Republic of Turkey

Unlike in other Muslim countries, revival activities in Turkey was not addressing the administrative and legal issues passed down by the colonial powers but more on restoring from destruction made by the foregoing Ottoman government (Cizacka 1998a, 2000b). The destruction of waqf in Turkey became apparent in 1937 when the Committee for the Abolishment of the *Waqfs* was establish under the purview of the Central of *Waqf* Administration CWA). It was claimed that the destruction of the *waqf* institution in Turkey involved the followings:

i. The abolition of financial autonomy of *waqf* entities. The collection of *waqf* revenues was centralised by the Ministry of Finance instead of by local *waqf* authorities;
ii. The usurpation of *waqf* revenues by the Central Treasury, which included giving loans to the state and bailing-out loss making state economic enterprises;

iii. The transfer of education-related *waqf* assets and revenues to the Ministry of Education. The transfer involved *madrasah* and those attached to mosque buildings;
iv. The introduction of *icareteyn* system that allowed former tenants as co-owner of *waqf* asstes and properties and induced them to purchase the properties. If the process failed, it would entail disposal of the *waqf* assets and properties (including mosques) through auctions; and
v. The abolishment of cash *waqf* in 1954.

(Cizacka 2000b)

Continued centralisation of *waqf* management and state intervention played important roles in the revival process. The promulgation of July 1967 Laws, particularly has contributed significantly to the revival of *waqf* in Turkey. Very importantly, the law legalised *waqf* entities and their judicial personalities. It has authorised the use of word '*vakif*', replacing the word 'establishment' or '*tesis*' as stipulated in the Turkish Civil Code. Under the law too that *waqf* could be practically created by everyone including the state. If at least eighty-percent of the revenues were dedicated for public purposes, the revenues could be granted with tax-exemption by the Council of Ministers.

Generally, the law attempted to improve the Turkish *waqf* management system through some simplifications and flexibilities in the *waqf* system. The law has re-introduced *istibdal* (exchange of *waqf*), which was a useful mechanism to resolve the dilapidated and less economic *waqf* assets and properties. The required the establishment of a waqf management board as a supervisory body for all *waqf* activities throughout the country and thus appointed the General Directorate of Waqfs (GDW). It worked under the supervisory of the Prime Minister in executing its responsibilities. Interestingly, however, the 1967 laws has also legalised the liquidation of *waqf* assets upon the approval of the GDW. *Waqf* assets and properties which were no longer capable of serving the objectives of their creation and harmful could be liquidated. In recent cases, *waqf* assets and properties could also be subject to liquidation by the authority if they were associated with fundamentalists and separatists, which fundamentally of security reason. In essence, the 1967 Laws signified the centralisation of *waqf* administration in in reviving the waqf institution in Turkey.

The 1967 laws has also made possible for the creation of cash-based companies such as the Vehbi Koc Foundation and the Turkiye Diyanet Vakfi. These two philanthropic foundations were instrumental in the revival of *waqf* in Turkey (Cizacka 2000b), namely in the rebirth of cash *waqf* in the country. The laws has also led to radical reformation to the Vakiflar Bankasi, which was incorporated using the capital of cash *waqf* when it was abolished in 1954. Vehbi Koc Foundation, set up in 1969 by a Turkish businessman, specialised in education and has financed a number of schools and a university, Koc University. On the other hand, the Turkiyet Diyanet Vakfi which was established in 1975 involved in organising annual pilgrimage to Makkah. The foundation had also been financing religious personnel and promoting Islam in Turkey. In the recent development, the foundation has also expanded its operations to promoting Islamic activities overseas. In the recent development, the Koc family has set up another foundation representing several hundreds of waqf known as 'Third Sector Foundation'. It main aim is to address the issue of human rights.

2.3.3.2 The African and Gulf Countries

Member countries of the OIC pledged their commitment to promote and develop the *waqf* institution, with Kuwait and Saudi Arabia leading the initiative (Sait and Lim 2006). In Kuwait, the Department of *Waqf* entrusted with the responsibilities of managing *waqf* affairs was upgraded to be the Ministry of Awqaf in 1962 and this has significantly reinforced the centralisation and nationalisation efforts of *waqf* activities. In 1965, the ministry was renamed the Ministry of Awqaf and Islamic Affairs and was reorganised upon liberation from the Iraqi invasion in 1992. The *waqf* activities in Kuwait were restored in 1993 with the creation of a public entity; the Kuwait Awqaf Public Foundation (KAPF). Its primary aim was to develop *waqf* resources in a strategic fashion, building on past experience and using modern institutional techniques (Mohsen et al. 2002; Sait and Lim 2006). It also assured the conformance to *Shari'ah* principles and the founder's wishes in undertaking the management of *waqf* resources. In achieving the objectives, the KAPF initiated a network of governmental bodies, charitable and investment institutions, and private sectors (local and international) to engage in the exchange of good practices, strategic investments and technical cooperation. More importantly, the KAPF refrained from competing with other parties in administering *waqf* and undertaking its functions.

In diversifying the *waqf* activities and strengthening its management, the KAPF instituted the *Waqf* Funds for National Community and *Waqf* Projects, to work together as one unit and mutually share responsibilities in developing *waqf* activities in Kuwait (Mohsen et al. 2002). The former undertakes urban *waqf* development projects of public interest, generally aimed at improving the socio-economic development of the communities. A few examples of the *waqf* funds are the *Waqf* Fund for the handicapped and persons in need of special care, the *Waqf* Fund for cultural affairs and the *Waqf* Fund for academic development. This last connects *waqf* sector activities with participating governmental and non-governmental organisations in undertaking development activities. For instance, the *Waqf* Project has worked for the Kuwait *Waqf* Project for Islamic Developmental Studies, Voluntary Work Project-Time *Waqf*, a project for the establishment of small and medium-sized industries, and the *Bait al-Saa'dah* Project for educating newly-married couples on their mutual rights and duties.

More importantly, the KAPF undertakes strategic planning based on *Shari'ah* social, economic and policy considerations. The KAPF also exploits the advent of information technology by providing an integrated *waqf* database for internal use as well as a global reference. In addition, the KAPF is instrumental in rules and regulation regarding *waqf* and is involved in producing academic literature. As an independent organisation, the KAPF attempts to strike a balance between the necessity to observe governmental planning regulations and activities in the best interest of a *waqf* project.

Among the North African countries, it has been claimed that Egypt has made the greatest effort in reviving the *waqf* institution (Cizacka 2000b; Pioppi 2004). Firstly, the *waqf* management reform began by legally formalising the establishment of cash *waqf* joint with stocks and shares via the enactment of the Law of Rules Relevant in 1946 (Cizacka 2000b). This law allowed courts to invest money received from *istibdal* (exchange of *waqf*) to be invested for the purpose of obtaining returns in the short term. Secondly, the Egyptian government abolished the *waqf ahli* or any private *waqf* in 1952 and was followed by a nationalisation of all *waqf khayri* (public *waqf*) under the control of Ministry of *Waqf* in 1954 (Cizacka 2000b). In effect the Ministry took charge of religious affairs, with no self-supporting budget and dependent on general public finance. As the administrator of *waqf*, the Ministry could spend the revenue generated by *waqf* properties without any reference to the *waqf* deeds or conditions. Thirdly, the Egyptian government permitted courts to sell derelict *waqf* properties on condition that the cash obtained was used to establish a new cash *waqf*. In 1957, the Ministry of *Waqf* allowed the large-scale practice of *istibdal*; the practice of converting *waqf* of real properties into cash. This paved the way for massive land reform known as the Agragian Reform Administration and the nationalisation of the *waqf* lands to the Land Reform Committee via the issuance of bonds for the confiscated lands, and upon maturity, the capital was transferred to the government to be invested in development projects. Finally, a special Administration for *Waqf* was formed in an effort to revitalise religious charity and rehabilitate the *waqf* institution; broadening its functions to include the provisions of social services to the population, particularly in the field of education and health.

Waqf experience in Sudan is a fascinating example as the development of *waqf* system in the country was significantly influenced by the political instability, namely changes of government which muddled between the Islamists and secularists (Cizacka 2000b). Traditionally, *waqf* in Sudan was very insignificant until receiving the support of the Egyption government. In describing the revival of *waqf* in Sudan, Cizacka (2000b) also highlighted that the revival activities of *waqf* only became apparent in the 1970s characterised by centralisation of *waqf* administration and state intervention.

The first development was the promulgation of the Islamic Charity-*Waqf* Law 1970, which codified all relevant laws pertaining to *waqf*. During this time, the Ministry of Religious Affairs was made in charge of the *waqf* system in Sudan, including the appointment of *nazir* (*waqf* trustee). Later in 1980, a specific *waqf* law referred as *al-Awqaf* and Religious Affairs was enacted legalising the centralisation of *waqf* administration in the country. The Ministry of Religious Affairs was appointed as the General Administrator and the Public Corporation of *Awqaf* was formed in 1987 (Hasan 2007). During this time too the *waqf* system in Sudan was gradually adhering the prescriptions of the Hanafi school of laws. In the 1989, another law on *waqf* known as Islamic *Awqaf* Organisation 1989 was promulgated by the Islamic regime, the National

Islamic Front, espousing the 'Islamic Salvation Revolution'. The radical changes introduced by the regime in the administration of Islamic institutions including *waqf* has two main implications: first, a resurgent of *waqf* establishment and second, significant increase in the value of *waqf*. The Hanafi's prominence on the *waqf* system in Sudan was legalised through the Personal Status Law 1991. It emphasised on the revocability of *waqf*. The latest waqf development in Sudan was the creation of cash-based *waqf* entity in 1995, the Great *Awqaf* Company, which was completely financed by public donations. The company that was set up with paid up capital of £10billion aimed to popularise *waqf* throughout Sudan. The company has not only undertaken social and charitable activities but also constructed basic infrastructure including schools, hospitals, old-folk homes and mosques. The centralisation of *waqf* administration with state intervention appeared to be worthy in the revival of *waqf* in Sudan.

2.3.3.3 The Indian Sub-Continent

In India, the period of 1947-1954 was a critical period for *waqf* in India. The administration had to deal with the legacy of the British colonials, particularly the unsettled *waqf ahli* and the partition of Pakistan. The so-called modernists, who were distressed by family *waqf*, were in favour of the repeal of the Muslim *Waqf* Validation Act 1911 (Cizacka 2000b). In addition, many *waqf* were left without a trustee or beneficiary, as most of them fled to Pakistan during the partition period and in the meantime, a reverse migration from Pakistan resulted in the illegal occupation of *waqf* properties by displaced persons. It seemed that the *waqf* system was exploited during this chaotic time. *Waqf* management in India, however, seemed to be more stable after by 1954 with the enactment of Central *Waqf* Act of 1954.

The Indian government had created supervisory or advisory bodies in reforming the *waqf* administrative system after the chaotic partition period. The *Waqf* Board instituted by the Central *Waqf* Act of 1954 marked the centralisation of *waqf* administration in India (Ahmed and Khan 1997). The act aimed to provide a better administration and supervision of *waqf* by imposing precise obligation upon trustees, *mutawallis* (administrators), and granted state governments with supervisory responsibilities (Ahmed and Khan 1997; Cizacka 2000b). In other words, all charitable and religious endowments, irrespective of denomination, came under state control and strict monitoring of the administration of *waqf*, including that of the financial management, with policies being laid down by the central government.

A more vigorous effort to create an efficient *waqf* system in India was undertaken by establishing an advisory council known as the Central *Waqf* Advisory Council with the introduction of the *Waqf* Section of the Government of India in 1958. This fully-supported government advisory board was primarily established to give advice to the government on *waqf* affairs. However, the Central *Waqf* Advisory Council appeared to have failed in its mission and in 1969, the Indian government set up the *Waqf* Inquiry Committee to conduct an inquiry into the administration of *waqf* at all levels (Ahmed and Khan 1997). The Committee made recommendations for a thorough restructuring of *waqf* administration designed to improve the financial position of the *waqf* institutions.

The promulgation of the *Waqf* Act 1995 (not applicable in Jammu and Kashmir) was a significant attempt by the Indian government at strengthening the unsettled *waqf* administration. The government had not only created new *waqf* establishments and undertaken restructuring programmes of *waqf*-related organisations but also conducted aggressive efforts in the registration of *waqf* (Ahmed and Khan 1997). A Central *Waqf* Council was created to advice the central government on matters concerning the *Waqf* Boards at state level and other matters of *waqf*. It was chaired by a minister appointed by the government and assisted by some twenty members of various sectors, namely, representatives of Muslim organisations, Members of Parliament, Chairmen of *Waqf* Boards, judges, *mutawallis* (administrators) and renowned Muslim scholars. The activities of the council were financed by contributions of state *Waqf* Boards which were deposited in a Central *Waqf* Fund. Donations and other general contribution were also deposited in the Fund while repayments of loans were reused for the development of urban *waqf* properties.

Due to a large number of unsettled disputes and conflicts relating to *waqf* properties, the government also created a *Waqf* Tribunal in 1995 at central government level. At state level, the Indian government renamed the *Waqf* Commissioner as the Chief Executive Officer. The *Waqf* Boards primarily maintained their function of maintaining, controlling and administering *waqf* resources in conformance to the purposes of *waqf* and the *Shari'ah* precepts. The activities were generally financed by mandatory contribution of *waqf* under the supervision, known as the *Waqf* Fund. Both the Chief Executive Officer and the Boards were held jointly answerable to the State Government and the Central *Waqf* Council that advices the central Government on the matters of *waqf* activities. In addition, the Act required the registration of all *waqf* with *Waqf* Boards in the respective states, irrespective of the time of creation. The Board was also authorised to recover any unauthorised transfers of immovable *waqf* properties. Both the Central *Waqf* Council and state *Waqf* Boards were required to furnish relevant financial statements and undertake appropriate audits of their operations. This reform effort was, however, deemed insufficient and could hardly be considered an improvement to the *waqf* system in India (Cizacka 2000b). The Act was argued to be as centralist as the previous ones and all state governments seemed have another hierarchy of control consisting of a *Waqf* Board headed by a Chief Executive Officer. In addition, state intervention was still dominant with the appointment of members for both the authorities.

Similarly, *waqf* activities in Pakistan had long been under direct supervision of the government. In reviving the institution of *waqf*, the Pakistani government has undertaken two important reform stages since its partition from the Indian government. Between 1947 and 1971, like its neighbouring countries in the sub-continent, the Pakistani government undertook a large-scale exercise to nationalise and gradually centralise the administration of *waqf*. The main purpose of the efforts was to have control of the financial resources of the endowments and was an attempt to deny any opportunity for autonomy to religious establishments (Cizacka 2000b). As such, the state has sought to maintain tight control over the registration and, particularly, the management of *waqf* (White 2006b). In 1959, the government tried to dispossess the *mutawalli* position through the West Pakistan Properties Ordinance. Later, in 1961, the *waqf* administration in Pakistan witnessed the wholesale nationalisation with the passing of the Awqaf Ordinance and West Pakistan *Waqf* Properties Rules that placed *waqf* properties directly under the control of the Central Government. Second, a reversal of the large-scale centralisation took place with the passing of Awqaf Federal Repeal

Ordinance 1979, after the realisation that the regulatory tools imposed on the *waqf* management system were ineffective. The reversal to individual provinces was mainly to ensure better management of the properties, to improve the standard of religious services, to ensure that revenues were used for the original purposes and to enhance religious education (Cizacka 2000b; White 2006b). The Administrator of Awqaf in a province now had complete control over *waqf*, taking over *waqf* property and assuming its administration, control, management and maintenance, including the right to change the curricula of the religious schools run by *waqf* (Cizacka 2000b; White 2006b).

Despite being one of the poorest Muslim countries, Bangladesh has initiated numerous efforts to improve its *waqf* management. The Ministry of Religious Affairs that is responsible for *waqf* activities has established the Administrator of *Waqf* Office (AWO) which is headed by a government-appointed Administrator of *Waqf* (AOW) (Sadeq, 2002). The AWO fundamentally acts as a supervisory board to support and supervise the administrators in managing *waqf* activities. Under this new administrative regime, all *waqf* properties must be registered with the AWO and are subjected to the government's administrative system of *waqf* except private trusts or *waqf* which are managed directly by administrators or committees. In order to perform its duties, the Administrator of *Waqf* is accorded considerable power covering regulatory, supervisory, financial, administrative and advisory decisions (Hasan 2007). Thus, the Administrator of *Waqf* is also involved in resolving disputes related to illegal possession or transfer of *waqf* estates and misappropriations, as well as removing appointed administrators for breach of trust or improper management. On the other hand, a separate Board of Trustees or Board of *Mutawallis* is primarily responsible for large and profit-making *waqf* in Bangladesh. The Board is accorded more flexible authorities for the benefits of the *waqf* and beneficiaries (Hasan 2007). He added that Bangladesh has witnessed the widespread practice of cash *waqf*, which has promising support from the banking sector. For instance, the Social Investment Bank of Bangladesh (SIBL) has made arrangements for the public to participate in cash *waqf* and reap the perpetual rewards in the after-life. In Bangladesh, cash *waqf* is instrumental in the provision of higher education, particularly in the wake of the Private Education Act 1992. Pooled cash *waqf* were utilised to finance private colleges and universities, such as the Social Science Institute (SSI). Recently, the creation of *waqf* of intellectual property has also gained momentum in Bangladesh, mainly consisting of copyrights of books.

Despite the promising development, the *waqf* administration in Bangladesh is dealing with *waqf* properties which are not registered with the Administrator of *Waqf* due to lack of awareness, particularly in the rural area, and of deliberate attempts not to register the *waqf* so as to avoid the control of the government administrative *waqf* system. Misappropriation of *waqf* properties, incompetent administrators, lack of manpower and under-utilisation of *waqf* properties are primary challenges for the future development of *waqf* in Bangladesh.

2.3.3.4 Southeast Asia

Since its creation in 1971, Singapore has aggressively revived the *waqf* institution by improving the governance system of *waqf* management. The management of *waqf* in Singapore has remained with the *Majlis Ugama Islam Singapura* (Muslim Religious Council of Singapore [MUIS]) since 1968, not long after 1966 repeal of the MHEB Ordinance of 1905 (Brown 2008). Since then MUIS has played a regulatory role in Singapore while trustees and *mutawallis* (administrators) continue their managerial roles under the Administration of Muslim Law (AMLA) (Karim 2010). However, the trustees of private *waqf* still have legal rights of ownerships and sale. This centralisation of *waqf* administration aims to ensure that *waqf* properties are controlled, administered and protected from corrupt use, sale or transfers. In doing this, MUIS, which enjoys a fair amount of autonomy within *waqf*, is empowered to appoint or remove existing trustees or administrators who are corrupt and/or incompetent. MUIS, as the central authority of *waqf* management in Singapore, is involved in the registration and evaluation of *waqf* assets as the value of *waqf* assets has to be updated regularly and insurance provided, and the land has to be developed according to the founders' wishes. The financial management of a *waqf* fund is handled by a separate financial division, identified as *Baitul-Mal* (the Treasury). In controlling the diverse funds, they separated the commercial and religious pursuits of *waqf*.

MUIS has embarked on many *waqf* development projects since the 1990s through innovative and contemporary *waqf* instruments, which include *ibdal/istibdal* (sale/exchange) arrangements, leasing, and cash *waqf* (Karim 2010). The creation of Warees Land and Warees Investments in 2001 sped up the *waqf* development activities in Singapore. The directly-related entities were created to handle property transactions, but under the supervision of MUIS. *Istibdal* arrangements in Singapore are generally applicable to *waqf* properties that are commercial in nature, unless stated otherwise. Meanwhile the actual sale of *waqf* properties (*ibdal*) is only permissible if the *waqf* has more than one property. With regard to cash *waqf*, it is often issued to raise capital for large capital-intensive projects. In addition, MUIS has introduced the *musharakah* (partnership) bond whereby the *waqf* accepted guaranteed deposits from financiers, the funds from which are then invested in land. The *waqf* has to return the principal in cash to the financier and any net profit (or loss) is shared between the *waqf* and the financier. In 1996, cash *waqf* was transferred to development fund and pooled with surpluses from mosques and trusts for investments and providing interest-free loans for the redevelopment of old mosques and *madrasahs* (religious schools). The latest development was the redevelopment projects of mosques in Beach Road and Bencoolen Street (Brown 2008).

In Indonesia, the earliest regulatory effort for *waqf* was enacted in 1977 via the Pewakafan *Tanah Milik Tahun 1977* (Endowment of Private Land 1977). However the revival of the *waqf* institution in Indonesia became apparent in 1993 with the creation of *Tabung Wakaf Indonesia* (Indonesia *Waqf* Fund *[TWI]*) by a non-government organisation, *Dompet Dhuafa Republika.* Its primary objectives are to mobilize *waqf* assets and resources, as well as to provide financial support in the social development and sustainability of the economic position of the Muslim communities in Indonesia. TWI is attempting to set up a *Waqf* Bank in Indonesia to realise its vision. At present, TWI invests the *waqf* funds in various types of investments, namely, the *mudharabah* savings in banking institutions, equity participation in industries and the development of small and medium-sized industries to stimulate the economic position of the Muslim communities in Indonesia (Chandra and Rahman 2010). The effort propagated by TWI has been supported by the *Majelis Ulama Indonesia* (Board of Indonesian Muslim Scholars [MUI]), which endorsed endowments in cash in Indonesia by 2002. The Indonesian government later legalised the use of cash in *waqf* by the *Undang-Undang Umum* (Law for Indonesia [UU]) No. 41/2004. Since then, cash *waqf* have been widely used as a means of micro-financing in an attempt to alleviate poverty in Indonesia (Masyita et al. 2005). In demonstrating its commitment in developing *waqf* as an alternative social and economic resource, the Indonesian government instituted a central *waqf* administrator recognised as the *Badan Wakaf Indonesia* (Indonesian *Waqf* Organisation [BWI]) in 2006 via the promulgation of the UU 41 Tahun 2006 (Salam 2008). This independent administrator's primary functions are to organise and strengthen the management of *waqf* in Indonesia. The administrative functions of the *Badan Wakaf Indonesia* are put into effect by the *Dewan Pertimbangan* (supervisory board) and *Dewan Pelaksana* (executive board). The *Badan Wakaf Indonesia* has its representative in most of the provinces to undertake the management and development activities of *waqf* properties.

2.4 Summary

Waqf is not explicitly mentioned in the Qur'an and therefore its legal parameters were largely developed over the centuries by Muslim jurists and Muslim societies. Although the creation of *waqf* in Islam was initially private, it later emerged as a dynamic charitable institution in the Muslim societies over decades. Kahf (1998) attributed its dynamism to the *waqf* jurisprudence that is premised on the *ijtihad* rulings; an integral part of establishing dynamism, adaptability and relevance of the institution. Its roles in reinforcing religious practices, imparting knowledge and enhancing education, expanding economy, improving social security and strengthening power and authority were significantly beyond any charitable institution (Hoexter 1998a). It was also believed that the *waqf* model have influenced the development of famous institutes of higher education, namely, Merton College at Oxford University (Gaudiosi 1987) and Harvard University (Setia 2011).

Despite its overwhelming achievements in human civilisation, the history of *waqf* has been turbulent. For centuries, the fate of *waqf* institutions was closely linked to the states in which they functioned. The development of *waqf* was at its peak during the Ottoman Empire but has been described as having stagnated when the European countries colonised most of the Muslim countries. The revival of *waqf* institution in the Muslim worlds began in the twentieth century, either under the patronage of governments or active collaborations with the private sector or non-governmental organisations.

The following chapter provides an overview of the Malaysian government and the administration of Islam, including that of the *waqf* management in Malaysia.

CHAPTER THREE: AN OVERVIEW OF THE ADMINISTRATION OF ISLAMIC AFFAIRS AND *WAQF* MANAGEMENT IN MALAYSIA

3.1 Introduction

This chapter aims to offer a comprehensive description of the Malaysian government's administrative and governance structures as well as the position of Islam in the Malaysian government administration. To accomplish these two objectives, the chapter is divided into four main parts: first, an overview of the Malaysian government administration that describes the administrative and governance structure; second, a discussion of the administration of Islam and its associated matters in the Malaysian government, which illustrates the historical perspectives of the religious (Islamic) policies and the present administration of Islam; third, a discussion relating to the position of Islam in the government's main policies, and; finally, an overview of the management of *waqf* institutions in Malaysia is presented. The comprehensive description of the administration of Islam in Malaysia is essential for the understanding of waqf and its management in Malaysia.

3.2 An Overview of the Malaysian Government Administration

This section primarily discusses the main elements of the Malaysian government administration: the administrative structure and the governance structure. A discussion on these areas will provide an understanding of the Malaysian government administration. The section also discusses the element of rulers and governors that forms part of the Malaysian government's administrative system.

3.2.1 Administrative Structure

The administrative structure of the Malaysian government is modelled on the British administrative system (Siddiquee 2005). It is structured on a three-tier administrative system: first, the Federal government; second, state governments and; third, local governments. The organizational structure of the Malaysian government is shown in Figure 3.1. In the first tier, the Federal government comprises ministries, statutory bodies, public enterprises and departments. The Malaysian Constitution has given extensive power to the Federal government where national administration is concerned. The Federal government is responsible for defence, external affairs, internal security, citizenship, civil and criminal law, finance, trade and commerce, shipping, communications, health, labour and education.

To accomplish its functions, the Federal government has created various government departments and statutory bodies. Statutory bodies are incorporated according to Malaysian laws to help expedite the attainment of the government's missions and goals (Siddiquee 2005). For instance, the Ministry of Finance created the Accountant General Department, whose main function is to manage the Malaysian government's accounting and finance matters. The Malaysian Institute of Accountants (MIA) is a statutory body under the Ministry of Finance and was set up in accordance with the Accountants Act 1967. It is an authoritative body whose function is to regulate the accounting profession in the country. Later in the 1980s, the Malaysian government started to incorporate several public enterprises through the corporatisation and privatisation policies; these include Malaysia Telecom Department (1990), Malaysia Airline System (1985) and Petroliam Nasional Malaysia (PETRONAS).

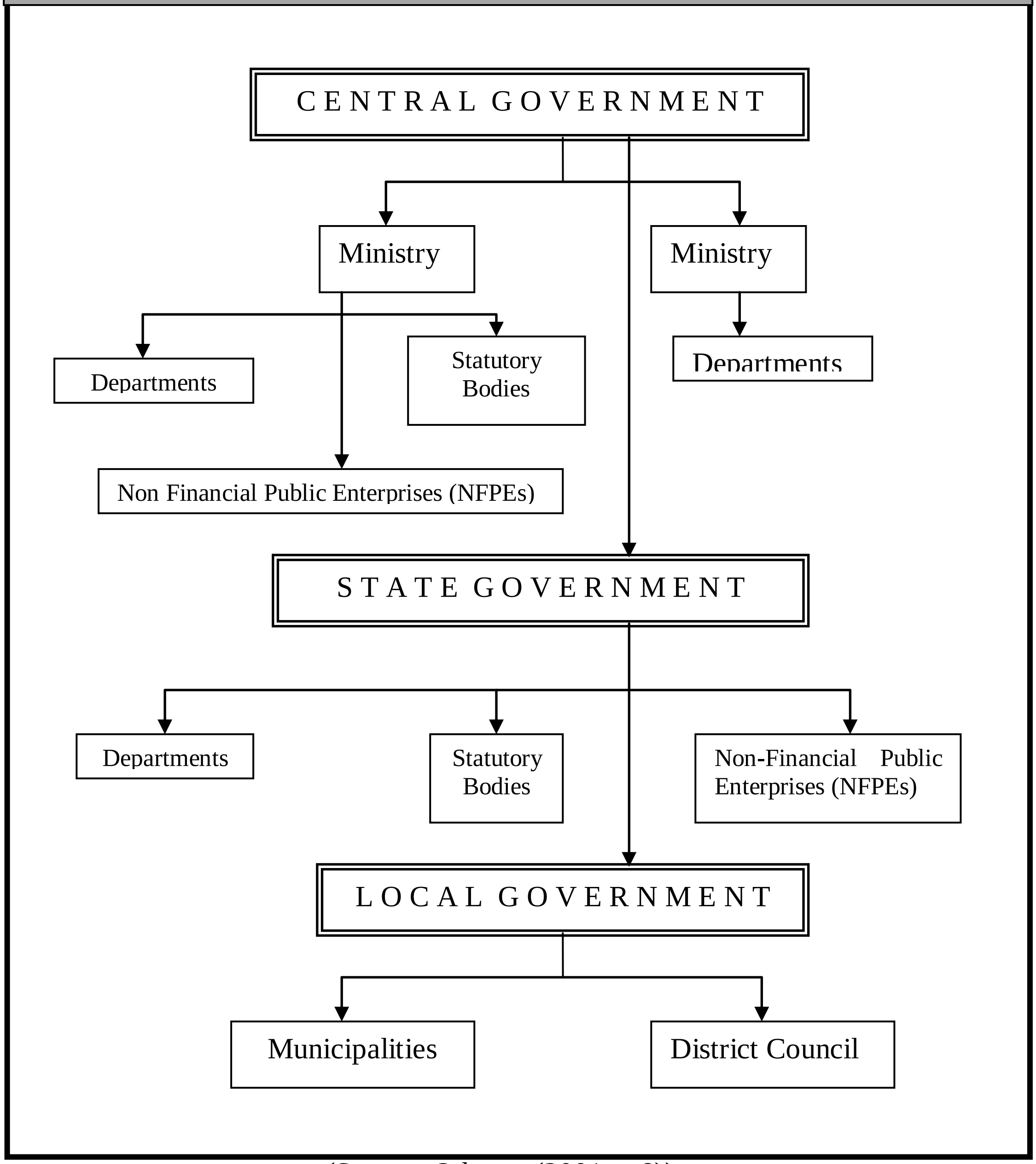
State governments constitute the second tier of the Malaysian government administrative system, as illustrated in the Figure 3.1. The administrative system of state governments is similar to that of the Federal government in most aspects. The state governments are responsible for most of their own state administration. To ensure smooth administration, almost all state governments create departments and form various state statutory bodies to execute certain functions and thus accomplish their goals. For instance, in the case of the administration of Islam and its affairs, each state government has created an autonomous State Islamic Religious Council (SIRC) to safeguard the sanctity of Islam and promote the advancement of the Muslim community. State governments have also corporatised some of their public enterprises through similar corporatisation and privatisation policies to those of the Federal government. The state of Selangor, for instance, has privatised the *Jabatan Bekalan Air* (Water Suppy Department), which is currently known as *Syarikat Bekalan Air Selangor [SYABAS]* (Selangor Water Supply Company).

Local government forms the lowest level of the Malaysian government administrative system, as depicted in the Figure 3.1. Based on the Ninth Schedule of the Malaysian Constitution, local governments fall under the State List and hence under the jurisdiction of the state governments. The Local Government Act 171 (1975) categorises local government in Malaysia into two types: municipal council and district council. However, the Act provides for the establishment of a city council. The status of city council (or a city hall) is conferred by the King and requires the concurrence of the Conference of Rulers. Local councils may be upgraded to a higher status due to the expansion of service areas and administrative expediency.

3.2.2 Governance Structure

The Malaysian Constitution underlines the governance structure of the Malaysian government, which is based on the principle of the 'separation of governing powers'. The principle delineates the Legislative, Executive and Judicial authorities and seeks to ensure a just and fair government in which no single authority is vested with an absolute power. The principle of 'separation of governing powers' is exercised at both the Federal and State level. For the purpose of this study, a discussion of the legislative and executive authorities of the Malaysian government is presented.

Figure 3.1: Public Sector Organisational Structure in Malaysia



(Source: Othman (2001, p.8))

3.2.2.1 Legislative Authority

Article 44 of the Malaysian Constitution outlines the legislative authority at Federal level is vested in the parliament and is headed by the *Yang Di Pertuan Agong* (The King[27]). The Federal legislature consists of two houses: the *Dewan Rakyat* (House

[27] The King or *Yang Di Pertuan Agong* is, constitutionally, the source of all authority: legislative, executive, and judicial. In practice, the King may not exercise these wide powers as he likes, but on the

of Representatives) and the *Dewan Negara* (House of Senate). The two hundred and nineteen (219) members of the House of Representatives are all elected in a general election held in every five years. The House of Senate comprises seventy (70) members, forty (40) of whom are appointed by the King, twenty six (26) are selected by each of the State Legislative Assemblies, and a total of four (4) members who represent the Federal Territories of Kuala Lumpur (two members), Labuan (one member), and Putrajaya (one member). The relationship between the House of Representatives and the Senate is based on the enactment of laws. The Constitutional (Amendment) Act 1984 provides that laws (other than financial bills), shall become law at the expiration of a certain period of time (fifteen days) and be deemed as being assented to by the King provided they has been passed by two-thirds of both houses (House of Representatives and the Senate) (Rawlings 1986; Singh 1995).

At the state level, the state legislature consists of a single chamber, the State Legislative Assembly, and it is modelled on that of the Federal Parliament (Milne 1967, p.131). The state legislature bears the same relationship to the state executive as the Parliament bears to the federal executive. The state executive is responsible to the state legislature and cannot remain in office without the legislature's support. The distribution of legislative power between federal and state government is specified in the Federal list, State list and concurrent list of the Ninth Schedule of the Malaysian Constitution. The main subjects in the Federal list are external affairs, defence, internal security, civil and criminal law, citizenship, finance, commerce and the shipping industry, communication, health and labour. The state list comprises matters such as land, agriculture, forestry, local government, natural resources and Islamic affairs. The concurrent list over which both the Federal and State government have powers include social welfare, scholarship, and protection of wildlife, town and country planning.

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advice of his Ministers who form the Cabinet. The Cabinet must have support from of the House of Representatives, which, in turn, is elected by the people. He is a 'Constitutional' monarch who is elected by a Conference of Rulers every five years.

3.2.2.2 The Executive Authority

Article 39 of the Malaysian Constitution stipulates that executive authority is vested in the King, but is exercisable by a Cabinet (Council of Ministers) headed by the Prime Minister. The Cabinet consists of Ministers drawn from the majority party in the Parliament. Members of the Cabinet are appointed by the King on the advice of the Prime Minister, who has considerable discretion in choosing the Cabinet members. Although the Cabinet is directly responsible to the King, collectively it is responsible to Parliament, which in practice is the House of Representatives (Milne 1967, p. 139). According to a democratic system, the Prime Minister is the Chief Executive and the actual government of the country is in the hands of the Cabinet (Milne 1976).

At the state level, the Ruler or Governor of each state is obliged to act on the advice of the State Executive Council (EXCO). Members of this Council are all elected members of the State Assembly. In Sabah and Sarawak, this machinery is recognised as the Cabinet and the Supreme Council respectively. The Chairman of the Council is the *Menteri Besar* (Chief Minister in the states which do not have a Ruler). The Council is responsible to the people, because it must command a majority in the Legislative Assembly of the state (Milne 1976).

3.3 The Rulers and Governors

The Malay rulers (Rulers) and Governors form part of the Malaysian administrative structure. According to the Federation of Malaya Independence Act, 1957[28], which created the state of Malaya, recognized the rulers were as 'independent sovereigns … in whom resided all legislative and executive powers'. They are the heads of the Executive in each state[29]. The Rulers of the nine states (Federated and non-

[28] The name of the Malaysian Constitution as normally referred in legal documentations.

[29] There are altogether nine hereditary rulers, with the exception of Perlis and Negri Sembilan where the rulers are referred to 'Raja' and 'Yang DiPertuan Besar' respectively; the other states have 'sultans' Singh, H. 1995. UMNO leaders and Malay Rulers: The erosion of a special relationship. *Pacific Affairs* 68(2), pp. 187-205.

Federated[30]) are chosen by a variety of methods, laid down in each state enactment, unlike the nine Rulers who hold office for life, unless they become unfit (Milne 1976). In most states, the Rulers succeed by primogeniture, but there are some exceptions. The states of Malacca and Penang, as well as Sabah and Sarawak, are headed by a Governor. The Governor is appointed by the King and acts at his discretion as the Head of State. The appointment of the Governor is normally for four years at a time but a Governor may be reappointed (Milne 1967, p. 141). These Rulers and Governors are bound to act on most matters in accordance with the advice of their Executive Councils, just as the King must act upon the advice of his Cabinet (Milne 1976).

The nine Rulers have a wide field of discretion, arising from their more permanent nature and from the fact that each is head of Islam in his state. They may act without ministerial advice on some occasions: the making of a request for a meeting of the *Majlis Raja-Raja* (Conference of Rulers) relating to the position of the Rulers or religious matters, performing any function as head of Islam or relating to Malay customs; appointing heirs, a consort, Regent or Council of Regency; appointments to Malay titles and honours; and regulation of royal courts and palaces (Milne 1976).

The Rulers, together with the Governors of Malacca and Penang, as well as the *Yang Di Pertua*[31] of Sabah and Sarawak form a privileged body representing their power, recognized as the Conference of Rulers. The prime function of the Conference is to elect the King and his Deputy every five years. For this purpose, only the nine Rulers are included. The Conference is also regarded as a 'third chamber' of the Parliament. Article 38 of the Malaysian Constitution stipulates that members of the Conference may act at their discretion (without ministerial advice), particularly on matters related to their powers and positions as well as the special position of the Malays.

[30] The Federated Malay States (FMS) were Perak, Selangor, Negeri Sembilan and Pahang were formed in 1986 upon the consent of the respective rulers, while the Unfederated Malay States (UFS) were Perlis, Kedah, Johor, Kelantan and Terengganu formed in 1909.The FMS accepted British resident-general whose advice must be sought upon all administrative affairs of the state other than those touching religion (Islam) and the Malay custom. This also implied that they have surrendered most of their powers to central authorities in Kuala Lumpur. The UFS only had British advisor, whose role was very similar to British Resident but the rulers were much resisted to any move to decentralise the state administration and relinquishing their powers (Milne & Mauzy, 1986).

[31] *Yang Di Pertua* is appointed at the discretion of the King as the head Islam in the states of Sabah and Sarawak. He bears similar position as to Governors in the state of Penang and Malacca.

3.4 The Administration of Islamic Affairs in the Malaysian Government

The purpose of this section is to provide an overview of the administrative aspects of Islam and its affairs in Malaysia prior to and after Independence in 1957[32]. The historical perspective of Islam and its affairs is presented to illustrate the origin of religious (Islamic) policies in Malaysia since its arrival in the fourteenth century. The following section offers a description of the current state of the administration of Islam and its affairs in Malaysia after the Independence. A unique demarcation in powers and authority in policies on Islam and Malay customs between the Federal and state governments is discussed.

3.4.1 Historical Perspectives of Islam and Its Related Affairs in Malaysia

Islam has been an integral part of Malay and its culture for more than five hundred years. Although a precise date for the arrival of Islam in the Malay world[33] cannot be accurately ascertained, the *Batu Bersurat Terengganu* (Terengganu Stone), encrypted with Malay text but in *Jawi* (Arabic script) provides evidence for the existence of Islam in the region dating back to the 14th century (Caballerro 2001). The rapid but peaceful dissemination of Islam among Malays was the consequence of three main factors. First, some of the Islamic practices which originated with Indian converts easily mixed with pre-Islamic traditions and beliefs. These include the Hindu political notions of a feudal society that was rigidly demarcated between ruler and subject and governed by a strict deference to rank (i.e.caste system) (Mauzy and Milne 1983). Second, the acceptance of Islam among the Malay rulers further expedited the spread of

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[32] Malaysia was granted independence by the British government on the 31st August 1957. The period after independence saw major milestones in the administration of Islam and its affairs.

[33] The *Dunia Melayu* (Malay World) mainly refers to the Malay Archipelago. Wallace (2000) described it as comprising large and small connected islands between Asia and Australia, which include the Malay Peninsula (West Malaysia), Tenasserim and Nicobar Islands on the west, the Philippines on the north, and Solomon Islands, beyond New Guinea, on the west. Borneo Island (partly Sabah and Sarawak which is also referred to as East Malaysia), Java, Sumatera and Luzon are also part of the Archipelago. It extends for more than 4, 000 miles in the length from east to west, and is about 1,300 miles in breadth from north to south.

Islam among the Malays as these Malay rulers occupied the central position in Malay society. The extent of the Malays' loyalty to the rulers was described by the former Malaysian Prime Minister, Mahathir Mohamed, as '…a Malaya[34] without rulers would mean the complete eclipse of the Malays' (Singh 1995). Third, Islam was incorporated into the running of the Malay kingdoms and was utilised by the Malay rulers to legitimise their rules (Means 1978). For instance, the *Undang-undang Melaka* (Malacca Laws), which dealt with matters of marriages, trades, criminal laws and rules of evidence were promulgated during the Malaccan sultanate[35]. Laws influenced by Islam were acknowledged as an example of the early establishment of Islam in Malaya.

Islam continued to flourish during the Malaccan sultanate until 1511, when the Portuguese arrived in the region to establish control over the Muslim-dominated spice trade to Europe (Caballerro 2001). Later, in the early 17th century, the Dutch dominated the European presence in the region and controlled Malaya until late 17th century. This was followed by the British presence in the region from the 18th century onwards. Its presence had a profound effect on the people of Malaya and on Islam. The presence of the British in Malaya was also seen as the beginning of a gradual decline in the influence of Islam in state administration. During the British colonization, the Malay Rulers who were regarded as occupying the central position in the consolidation of Islam in Malaya, saw the benefits of submitting to the British laws and government and thus served their interests (Caballerro 2001). They gradually forfeited their substantial administrative powers during these periods and finally retained only a responsibility for matters of religion (Islam) and Malay customs (Means 1978). As a consequence of the circumscribed prerogative powers on these two matters by the British, the Malay rulers devoted themselves to ceremonial and religious matters. This administrative deal led

[34] Malaya refers to Peninsular Malaysia before the formation of Malaysia in 1963 (Milne & Mauzy, 1986). The indigenous people who lived in Malaya were referred as Malay. When originally constituted, Malaysia consisted of Peninsular Malaysia, Singapore and East Malaysia (Sabah and Sarawak). However, Singapore separated from Malaysia in 1965.

[35] There were disagreements as in whose reign Islam was established in the Malaccan sultanate. Milne and Mauzy (1986) for instance, asserted that Islam was firmly established during the reign of Sultan Muzaffar Shah, who took the succession from Sultan Iskandar Shah (Hindu Maharaja Sri Parameswara). On the other hand, some authors believe that Islam gained its prominence as early as in Sultan Iskandar Shah's period. He was believed to have converted to Islam in the early 15th century Fernando, J. M. 2006. The position of Islam in the Constitution of Malaysia. *Journal of Southeast Asian Studies* 32(2), pp. 249-266..

Islam to become more institutionalised; it was incorporated into laws governing Malay society and later developed as an element of nascent Malay nationalism (Means 1978).

The 1940s, 1950s and 1960s, witnessed the turning point for the position of Islam in Malaya for three principal reasons. First, these years saw the determination of the place of Islam in the constitution of the Federation of Malaya (The Federation) in 1948. The formation of the Malayan Union (The Union) in April 1946, right after the Japanese occupation (1941-1945), provided an impetus for the Malay nationalism with Islam as a vector. The long-term aim of self-government, which centralized the administration of the government, was strongly opposed as it lessened the authority of the Malay rulers in states, and abolished the special position of Malays. Fearful of Malay rebellion, the Malayan Union was replaced by the Federation (Mauzy and Milne 1983) that reinstituted many of the functions of the Malay rulers, restoring the special position of Malays and reinstated the state powers. The Malay rulers were reinstituted as the heads of Islam in their respective states and exercised their rights on all legislative, doctrinal, and administrative authority concerning Islamic matters within their boundaries. More important, the Federation's constitution stipulated that 'Islam is the religion of the Federation'[36] and guaranteed the practice of all other religions.

Second, the period saw the passage of a new set of state regulations providing continued institutionalization and bureaucratization of Islam. It began with the legislation of Islamic matters in the form of the Selangor Administration of Muslim Law Enactment of 1952, which was often taken as a model. This was followed by the creation of the *Majlis Agama Islam Negeri* (State Islamic Religious Council [SIRC]), headed by a state *Mufti*. This Council was and still is empowered to aid and advise the Ruler and to exercise authority on all Islamic matters covered by relevant statutes (for instance relating to *baytulmal*, *zakah* collection, marriages and divorces, Muslim offences and so forth) (Roff 1998). The states also began to establish or expand the State Islamic of Religious Department (SIRD) to improve the administration of Islam and its affairs (Means 1978). Some state governments started collecting *zakah*, providing Muslim social services, and organizing and improving the enforcement of the Muslim criminal and moral codes. *Kadis* (religious judges) were appointed and made responsible

[36] However, Islam was not the state religion in Penang and Malacca, which were Crown Colonies ibid.
, ibid..

for administering Muslim affairs in the states of Penang and Malacca since there was no SIRC or SIRDt at that time.

Third, upon gaining Independence in 1957, Malaya was established as a secular state and Islam 'taken as the official religion of the Federation' (Roff 1998). The pronouncement of Islam as the official religion as per Article 3 (1) of the Malaysian Constitution had two major effects. It guaranteed the implementation of Islamic laws, although limited, and the establishment of various Islamic institutions such as Islamic religious councils, *baytulmal*, *waqf* and *fatwa* council (an authority issuing religious decrees), under the jurisdiction of the states (Hassan 2007). *Shari'ah* Courts were given more powers so that obligations of Islamic law, as defined in each state, became more effectively and stringently enforced (Means 1978). This, however, did not prohibit the practice of other religions. The article also specified the relationship between the Malay rulers and the administration of Islam in each state. It confirmed the rulers of each of the states as 'Heads of the Muslim Religion" under their own constitutions[37]. For the states of Penang and Malacca which have no hereditary Malay Rulers, Yang Di Pertua (Governor) were appointed as Head of State, but were given no authority and responsibility with regard to Islamic affairs. Instead, these duties are assumed by the King, who is the head of Islam for the whole Federation of Malaysia. What is more important, however, is that the institutionalisation of Islam as an official religion at the federal and state levels has significance in the public domain, such as with regard to the use of public funds to promote and protect Islam, and their implicit rule that the prime minister of Malaysia should be a Malay Muslim.

[37] According to Article 3(2) of the Federal Constitution, the Ruler of the Malay States of Perlis, Kedah, Perak, Selangor, Negeri Sembilan, Johore, Pahang, Terengganu, and Kelantan is proclaimed as the head of the religion of Islam. On the other hand, Article 3(3) stipulates the head of Islam for states of Penang, Malacca, Sabah, and Sarawak is the *Yang di Pertuan Agong* (paramount ruler). For Federal Territories including Labuan, Article 3(5) specifies that the *Yang di Pertuan Agong* is the head of Islam and the Parliament involves in the administration of Islamic affairs of the territories. The Council of the Rulers elects the *Yang di Pertuan Agong,* who is then proclaimed as head of Islam in the country. Being the head of Islam, rulers of each State are responsible for the administration of Islamic affairs as well as the development and advancement of Islam. The *Yang di Pertuan Agong* was to be selected from time to time among themselves by a body to be known as the Conference of Rulers, which would in addition have the right to determine 'the extension of any (Islamic) religious acts, observances or ceremonies to the Federation as a whole (Roff, 1998).

3.4.2 The Present Administration of Islam and Its Affairs in Malaysia

The source of authority for the present administration of Islam and its affairs in Malaysia is laid out in Article 3 of the Malaysian Constitution. It underlines the powers of religious affairs and Malay customs, which are vested in the Malay rulers and their respective state governments. This provision has two fundamental implications for the administration of Islam and its affairs in Malaysia. First, each state government enacts its respective laws to govern the administration of Islam and its affairs, which has given rise to an incoherent interpretation and hence, implementation of Islamic practices between states. Second, the Federal government machinery and its mechanisms have no legislative authority on matters pertaining to religious affairs and Malay customs, which are vested in state governments. Simply, Islamic institutions set up by the Federal government have no power to impose their policies or measures upon state governments. The apparatus set up by the Federal government was aimed at establishing influence on the religious policy-making and the execution of policies in state governments via the coordination of religious measures. The centralisation of Islamic institutions and Islamic authority has entailed continued but implicit tension between the Federal agencies and state agencies.

Despite the lack of authority, there were apparent pressures for the Federal government to create and expand agencies and departments to safeguard the sanctity of Islam and to coordinate the administration of Islam and its affairs. First, the increasing challenge of safeguarding the sanctity of Islam from deviant religious movements forces the Malaysian government to share the responsibility with state governments, which are constitutionally empowered on religious matters. Authorities at the state level were allegedly experiencing a lack of resources, particularly in terms of finances and of competent manpower to counter the situation. Thus the presence and role of the federal Islamic institutions became influential on the administration of Islam even with no legislative authority.

Second, the expansion of federal Islamic institutions was a response to the Islamic resurgence in the 1970s. The Malaysian government responded to this by making mostly symbolic concession to Islam; by exhortations against ‘deviant’ religious teachings and 'incorrect' interpretations of the Qur'an, sponsoring *da'wah*[38] programmes, establishing a larger federal bureaucratic infrastructure to direct and control religious activities as a means of reducing confrontation with the *da'wah* movements (Mauzy and Milne 1983). The establishment of the *Pusat Islam* (Islamic Centre), *Yayasan Dakwah Islam Malaysia* (Islamic Da'wah and Foundation Malaysia [YADIM]) and *Institut Latihan dan Dakwah Islam* (Institute of Islamic Da'wah and Training [INDAH]) was aimed at strengthening the understanding of Islam in the community.

Third, there was the public sector reform resulting from the global trend of increasing demand for an improved standard of public services, globalization trends, economic crises, new management ideas and an improved information technology. The fundamental objective of the reforms in government is to maximise the performance of all aspects of government's function (Mohamad 2004). The objectives cover four aspects of government performance: first, improving the effectiveness of public services; second, ensuring efficient operations of government; third, increasing the chances that policies are implemented effectively; and fourth, improving accountability (Mohamad 2004). The Malaysian public sector, without exception, introduced numerous reform initiatives covering managerial and financial management aspects. Similarly, the creation and expansion of several entities by the Malaysian government was to improve their effectiveness, efficiency and enhance accountability towards the public, of whom the majority is Muslim. The creation of *Jabatan Wakaf, Zakat dan Haji* (Department of *Awqqf*, *Zakah* and *Hajj* [JAWHAR]) was intended primarily to improve the effectiveness and efficiency of the administrations of *waqf, zakah, baytulmal* and *hajj* in Malaysia.

The descriptions of the administration of Islam and its affairs at both the federal and state level in the Malaysian government are presented in the following paragraphs.

[38] The literal translation is 'inviting to something'. From the Islamic perspective, the meaning of *da'wah* is inviting to the pure teaching of Islam. *Da'wah* movement refers to the activities of promoting or inviting anyone regardless of Muslims and non-Muslims to the true Islam.

3.4.2.1 Federal Government Level

At the Federal government level, the administration of Islam and its affairs fall within the remit of the Prime Minister's Department and one specific minister is assigned to be in charge of such matters. The first federal establishment for the purpose of administering Islam and its affairs was the Secretariat to the National Council for Islamic Affairs, which was set up in 1968. Later, YADIM and INDAH were both founded in 1974, aimed at strengthening the understanding of Islam in the community. Since then, various departments and agencies have been established and some were expanded in line with the expansion of other public sector within the Malaysian government. For the purpose of this study, however, brief descriptions of YADIM, *Institut Kefahaman Islam Malaysia* (Institute of Islamic Understanding of Malaysia [IKIM]), *Jabatan Kemajuan Islam Malaysia* (Department of Islamic Development of Malaysia [JAKIM]) and JAWHAR are presented.

(i) The Islamic *Da'wah* Foundation Malaysia

YADIM was created in 1974 for two main reasons. First, it was intended to organise and co-ordinate programme and activities with other resurging Islamic movements. In essence, the YADIM was to ensure that the programmes and activities of the Islamic movements were in support of the advancement of the Muslim community in the country. Second, the establishment of the YADIM was aimed at strengthening the understanding of Islam and encouraging the Muslim community to play an active role towards the development and progress of the country. In its renewed vision, the YADIM aims to cultivate a worldview for a Muslim community based on Islamic perspectives that are in congruence with the national development goal, Vision 2020.

(ii) The Institute of Islamic Understanding Malaysia

IKIM was established in1992 to promote the correct understanding of Islam. Its establishment was at the forefront of the new direction of Islamisation in the 1990s. IKIM attempts to channel the Islamic resurgence along the state-defined lines and propagate more ‘progressive’ Islamic views. Essentially, IKIM promotes the indigenised modern form of Islam appropriate for a dynamic industrializing nation (Camroux 1996). Among the efforts are undertaking researches and education activities that were focusing in the area of Islamic economics and promoting the values underlying national development planning of Vision 2020.

(iii) The Department of Islamic Development Malaysia

JAKIM was set up on 1 January 1997. It was initially known as the Islamic Affairs Division (*Bahagian Hal Ehwal Agama Islam [BAHEIS]*). BAHEIS was set up based on the resolution of the Conference of the Malay Rulers in 1968. Its main objective is to establish policies on the development and advancement of Islamic affairs in Malaysia and to promote the sanctity of Islam. JAKIM has also been relied upon in the process of enacting and standardising laws and procedures, as well as coordinating the implementation in all states. This department works closely with each of the SIRC and SIRD in the planning and the implementation of Islamic measures are consistent throughout each state.

More importantly, the introduction of *Islam Hadhari* (Civilisational Islam) in 2004 has placed JAKIM in the national development agenda. JAKIM was assigned with the administrative functions of the new developmental approach and to give clarification to the public on the *Islam Hadhari*, espousing Islamic perspectives in developing the nation. This role, as a consequence, has upheld the development of some Islamic institutions, particularly, *waqf* and *baytul-mal*.

(iv) The Department of *Awqaf*, *Zakah* and *Hajj*

The Department of *Awqaf*, *Zakah* and *Hajj* (JAWHAR) was established in June 2004 and was specifically made responsible for coordinating the *waqf*, *zakah*, and *hajj* activities in Malaysia. To accomplish its goals, JAWHAR has so far issued nine administrative guidelines pertaining to *waqf*, *zakah*, *baytulmal* and *hajj*, namely, Administration of *Waqf* Land, Distribution of *Zakah*, Provision of *Umrah* Services, *Waqf* Accounting and Management, Cash *Waqf*, A Model for Laws on *Waqf*, Administration of *Luqatah* (Unclaimed Assets), *Zakah* Calculation, *Badal Hajj* Services and Administration of Inheritance Property. Recently, JAWHAR was appointed to spearhead *waqf* development activities throughout the country, together with state Islamic agencies. The programme benefitted from RM250 million national allocations under the Ninth Malaysia Plan (2006-2010).

3.4.2.2 State Government Level

The present administrative structure of Islam and its affairs at the state level consist primarily of State Islamic Religious Council (SIRC) and State Islamic Religious Department (SIRD). This structure had been in practice since the British protectorate and was reinstated upon attaining Independence in 1957. The SIRC is generally referred to as the policy maker for the administration of Islam and its affairs, while the SIRD is responsible for carrying out the foundation and policies developed by the SIRC, except in Kelantan, Pahang, Sabah and Sarawak (Mahamood 2006). In these four states, it is the SIRC that undertake the duties of policymaking and execution of the policies. Essentially, SIRC and SIRD work hand-in-hand to carry out their duties as the guardians of Islam in the country. The SIRC and SIRD are described in further detail in the following paragraphs.

(i) The State Islamic Religious Council

The history of the SIRC dates back in 1915 when a Council for Religion was established in Kelantan to provide the supervision of mosques; it was later superseded by the Council for Islam. Since then, each state government has established a SIRC in accordance with state enactments on the administration of Islam and its affairs. Being a statutory administrative structure, SIRC is autonomous of the state government and exercises its own power, authority and jurisdiction. Thus, SIRC is not part of the (state) government administration (Mahamood 2006).

At present, SIRCs assume two important functions in state administrative framework. The first is to aid and advise the rulers (or sultans) on matters relating to Islam and Malay customs. Second is to develop policies on Islamic matters, which also makes it the highest authority on the administration of Islam in state governments. The provision of such matters, including that of *waqf* , is provided under the Ninth Schedule of the Malaysian Constitution (Roff 1998; Mahamood 2006).

(ii) The State Islamic Religious Department

Since its initial establishment in the 1940s, the main responsibilities of SIRD have been to administer the day-to-day affairs of Islamic matters and to oversee the running of the *Shari'ah* Courts in each of the respective states. At present, SIRD forms part of the state government's administrative structure. Its roles include implementing policies on the development and advancement of Islam that have been laid out by SIRC. Among the common features of SIRD are the provisions of religious (Islamic) education through schools, courses and seminars, as well as the monitoring of religious activities undertaken by mosques and related agencies.

3.5 Islam and the Malaysian Government

Islam was not influential in the administrative system of the Malaysian public sector until the mid-1970s for two main reasons. First, Islam was generally perceived as an official and ceremonial religion as laid out by the Malaysian Constitution. The separation of state and religion originating from the British administrative system continued to exist and be practised in the civil service, which was dominated by British-educated officials. Second, since Independence in 1957, the focus of the Malaysian government was on developing the socio-economic structure of the country. The government expanded the public sector with the creation of numerous departments and agencies, which, it has been argued, caused enormous regulatory and co-ordination problems as well as creating opportunities for corruption (Mohamad 2004).

The expansion of public sector in the Malaysian government has had its 'spill-over' on Islamic establishments, especially at the federal level. The Malaysian government has expanded some of its departments to respond to the emergence of the Islamic resurgence instigated by '*da'wah*' movements[39]. These groups claimed to propagate Islamic fundamentalism to born Muslims and were avowedly apolitical (Mauzy and Milne 1984). The common themes for these groups involved the rejection of Western values, culture, and materialism; they viewed the implementation of fundamental Islamic precepts as a sacred duty and the return to untainted Islamic ways was presented as an ideological alternative to the dogmas of both East and West.

According to Roff (1998), the eruption of the Islamic resurgence movements during these years was coincidental with the urbanisation process of rural Malays and an exponential increase in young Malays entering tertiary education, Islamic and non-Islamic, at home and overseas, as a result of government policies pursued after the political upheaval in 1969. As a consequence, a larger number of Muslims (Malays), from increasingly diverse backgrounds, became engaged in exemplifying the Islamic ideals in their own lives, in propagating Islam, and in discussing the reconstruction of traditional relationships between faith, community, and society. Mauzy and Milne (1983) reported that the Malaysian government was wary of the impact of the Islamic resurgence on the hegemony of ruling party in Malaysian politics. The second largest Malay-majority opposition party, the Pan-Islamic Party (*PAS*), was allegedly using Islam as an emotional issue, in order to win the allegiance of rural Malays away from the dominant government party.

Accordingly, as a response to such threats, the Malaysian government established and expanded federal bureaucratic infrastructures to direct and control religious activities as means of reducing confrontation with the Islamic movements (Mauzy and Milne 1983) and maintain the loyalty of Malay grassroots voters. YADIM and INDAH were established to assist the government in coordinating the dissemination of the 'correct' understanding of Islam and mediating the relationship of the government with Islamic movements. This development was also seen as the onset of a progressive

[39]In the 1980s, Islamic movements that were actively calling for the practice of pure Islamic teachings were aptly referred as *da'wah* movements.

'Islamisation'; the assimilation and integration of Islamic ideals into the administrative system of the Malaysian government since gaining Independence (Roff 1998).

From 1980s onwards, there were two important developments in the Malaysian public sector, which have had significant impacts on Islamic establishments both at the level of Federal and state governments. First, the Islamisation process, which was not just a response to Islamic pressures, was no longer considered symbolic, but rather as a part of a government-sponsored agenda. Haneef (2001) asserted that one of the most significant actions undertaken by Dr Mahathir[40] administration, which is however seldom discussed in scholarly literature, was the establishment of the Islamic Consultative Body (ICB). Its main function was to ensure that no development plans and policies ran against Islamic values. Among the roles of the ICB was to evaluate present policies and technology with the intention of modifying them to ensure that they were in line with Islamic values. In fact, Haneef (2001) argued that the move was an important milestone in the Islamisation programme by the government to align the government policies with Islamic values. This effort could be seen as an attempt to 'Islamisise' the overarching NEP or at least to provide an "Islamic alternative' within it. In 1981, a model of development that stressed 'good management practices', referred to as the '*Penerapan Nilai-nilai Islam* (Inculcation of Islamic Values) policy, was launched in the public sector. The policy aimed to instil "universal Islamic values" of *amanah* (trust), responsibility, sincerity, dedication, moderation, diligence, cleanliness, discipline, cooperation, integrity, and thankfulness (Haneef 2001). Above all the policy aimed to create 'a dynamic work ethic which would increase productivity' (Haneef 2001), and enable the country to have an effective, strong, just, and progressive administration.

The second development was the public sector reforms that took place significantly during the premiership of the fourth Prime Minister, Dr Mahathir, who took office in 1981. He became concerned about public sector inefficiency and was impressed by the dynamism of the private sector (Mohamad 2004). Although the Malaysian government had undertaken reform initiatives during 1960s and 1970s, they were more focused on expanding and adjusting the physical government structure to meet the rapid economic growth during that period rather than on the issues of ethics and attitudes of

[40] Dr Mahathir Mohamed was the fourth Prime Minister of Malaysia, serving the country for 23 years from 1980 to 2003.

civil servants. As a result, there had been significant shortcomings in the delivery of services by governments departments. The reform processes under Dr Mahathir's administration necessitated the consolidation and upgrading of the machinery of government in improving efficiency and effectiveness, and enhancing the accountability of civil servants (Mohamad 2004). Two types of reforms initiatives were undertaken by the Malaysian government: managerial reform initiatives and financial management reform initiatives. The managerial reform initiatives began with managing the attitude of civil servants. Dr Mahathir, in the early stages of his premiership, made a significant call to civil servants to work hard with high integrity, productivity. Arriving on time with the introduction of 'clocking-in', the wearing of name tags for civil servants and declarations of assets by ministers were among the measures to instil good management practice in the public sector. Mahathir also continued his predecessor's fight against corruption and launched the policies of '*Bersih, Cekap, Amanah*' (Clean, Efficient and Trustworthy) and '*Kepimpinan Melalui Teladan*' (Leadership by Example) to redress the inefficiency and ineffectiveness in public sector management. Four other main public sector reforms were the restructuring of the civil service, the 'Malaysia Incorporated' policy, the privatisation policy and improving the accountability of civil servants (Mohamad 2004). Detailed descriptions of the public sector reforms in Malaysia is in the folowing chapter, Chapter Four.

Based on the preceding discussion, it is apparent that the twin causes of Islamisation and modernisation via public sector reforms formed the backbone of Malaysia's national development. Both the Islamisation policies and public sector reforms shared the same aspirations of improving and enhancing the public sector management in terms of managerial and financial management. This unique intertwining of the two policies has had significant impact in improving the accountability, effectiveness and efficiency of Islamic institutions, both at the federal and state government levels. Being part of the administrative structure of the government, Islamic institutions adhere to policies launched by the government for the public sector. State government machineries were urged to follow suit with most of the policies introduced at the federal level. For instance, the Selangor State Islamic Religious Council was awarded a five-star Accountability Index by the Auditor General's Department in 2008. The award indicates that the Council had a satisfactory level of financial management in the year of assessment. In another instance, the Penang State Islamic Religious Council was awarded the quality certification of ISO 9000, showing its efforts in enhancing the administrative aspects, and at the same time improving its accountability, effectiveness and efficiency.

3.6 Islamic Institutions and the Economic Development Policies in Malaysia

Since gaining Independence in 1957, the Malaysian government's primary objective has been to reduce and eventually eradicate poverty for all Malaysians, irrespective of race and to accelerate the process of restructuring Malaysian society in order to correct economic imbalances. The New Economic Policy (NEP) that is recognised as the anchor in the development strategy aimed fundamentally to reduce and eventually eliminate the identification of race with economic function (Narayanan 1996). To achieve this overriding goal, the Malaysian government drew up a three-tiered development plan: long-term, medium-term and short-term, as illustrated in Figure 3.2.

Figure 3.2: National Planning Framework of the Malaysian Government
LONG-TERM PLANNING • Vision 2020 : 1991 – 2020 • First Outline Perspective Plan (OPP1) : 1971 – 1990 • Second Outline Perspective Plan (OPP2) : 1991 – 2000 • Third Outline Perspective Plan (OPP3) : 2001 – 2010
MEDIUM-TERM PLANNING • Five-year development plans, such as the Eighth Malaysia Plan (2001 – 2005)
SHORT-TERM PLANNING • Annual Budget

Source: http://www.epu.jpm.my

The long-term planning sets out the broad thrusts and strategies in the development agenda while the medium-term five-year plan sets out the economic growth targets and the size of allocations. The annual budget executes the short-term planning and attempts to ensure that the resource allocations are aligned with the national development agenda stipulated in both the long- and medium-term planning. Within the development framework, three important development policies have been set out to address the socio-economic development objectives: the New Economic Policy (NEP) from 1970 to 1990, the New Development Policy (NDP) from 1991 to 2000; and the New Vision Policy (Vision 2020) from 2001 to 2020.

In evaluating the position of the Islamic institutions in the Malaysian economic development, the underlying position of Malays and Islam in the Malaysian Constitution is crucial. Means (1978) in his work on Malaysia's traditions, developments and Islam, pointed out that Islam constitutes the integral part of Malay identity, and thus of economic development in Malaysia. The legal definition of Malay in the Malaysian Constitution is tied to adherence to Islam, as stipulated in Article 160:

> *"Malay means a person who professes the Muslim religion, habitually speaks the Malay language, conforms to Malay custom and (a) was before Merdeka (Independence) Day born in the Federation or born of parents one of whom was born in the Federation, or was on that day domiciled in the Federation; or (b) is the issue of such a person."*

The above provision clearly underlines the legal status of Islam that is directly tied to Malaysia's elaborate system of Malay special privileges[41]. As a consequence, religious issues intrude directly or indirectly into the whole area of inter-ethnic relations and have become entangled in nearly all economic and educational policies (Means 1978). The government's support and promotion of Islam as the official religion and government policies of giving preferential treatment to Malays have become entwined

[41] 'Malay special right' is a system of ethnic privileges inherited from the colonial era, and boasted as a primary instrument for the restructuring society in Malaysia. The Malays, during the colonial era enjoyed special rights and privileges in three main areas: land law, recruitment in the public services and education (Means, 1978). Lands designated as 'Malay Reservations' could only be owned and leased by Malays. In the public services, Malays filled the junior levels while in education, Malays were provided with free compulsory education. Article 153 of the Malaysian Constitution continued the provision these privileges to the Malays. The Malay special rights were again raised as the main focus in executing the New Economic Policy (NEP). It was further expanded to achieve the objectives of the NEP in eradicating poverty and reducing socio-economic imbalances.

with public policies towards religion. Government policies towards religion reflect an awareness of Islam as a powerful emotive influence on the behaviour and attitudes of most Malays.

As a consequence, issues of national unity and redistributive economic strategies of the government both rely upon, and are affected by, policies towards Islam. The discussions of the position of Islamic institutions and the economic development policies can be divided into three phases according to the national development strategies.

Phase I (Independence – 1990)

This period saw the first phase of national development since attaining Independence in 1957. Malaysia was fundamentally a commodity-based nation with significant dependence on rubber and tin. Thus, Malaysia had to undertake progressive actions to restructure its economy by diversifying and modernising agricultural production as well as emphasising rural development. As part of the restructuring programmes, the government set up the first Islamic economic institution known as the Pilgrimage Fund Board in 1963. Although it was initially envisaged as a savings scheme to enable Malay-Muslims to save their money for pilgrimage to Makkah, the Board contributed to the beginning of religiously motivated Malay-Muslim economic elevation[42]. As a result of a racial riot that occurred in May 1969, there was a critical assessment and a major shift in the focus of the Malaysian development policies at the beginning of 1970. The New Economic Policy (NEP) was launched in 1971, underscoring the importance of achieving socio-economic goals alongside pursuing economic growth objectives in a multi-ethnic and multi-religious nation with the twin objectives of eradicating poverty and restructuring society (PMD 2009). The policy was embodied in the First Outline Perspective Plan (OPP1) for a period of thirty years (1971 to 1990). Its policies were formulated and executed in six five-year Malaysia plans.

[42] By 1990, the Pilgrimage Fund Board had total assets worth over RM1.2 billion, indicating the Malay-Muslim potential in Malaysia, especially when motivated by a religious objective.

The creation of important Islamic institutions within the Malaysian economic development framework flourished in the 1980s. The Islamic resurgence that occurred in the late 1970s was argued to be the prime mover for this development. Nevertheless, Wilson (1998) argued that the commitment of the Prime Minister at the time, Dr Mahathir, in progressively developing the country to be competitive with of the developed countries was instrumental in such a development. Dr Mahathir believed that the weak economic position of the Malay-Muslim was fundamentally due to their ‘incorrect’ interpretation of Islam and their lack of understanding of its real meaning. One of the first steps he took to redress this phenomenon was to set up an Islamic Consultative Body (ICB) in 1981. The main task of this body was to assess the present national development policies at that time with the intention of modifying them to ensure that they conformed to Islamic values. In the same year, the ‘Inculcation of Islamic Values (IIV)’ policy was launched; stressing that Islamic spiritual values are capable of withstanding the pressures of the material world, and that wealth is not disapproved of, and certainly not forbidden in Islam.

Despite being criticised as being politically motivated, Mahathir’s era was seen as the most progressive in integrating Islam into the economic development of Malaysia via the pronouncement of policies and establishment as well as expansion of numerous Islamic institutions including the following:

- Bank Islam Malaysia Berhad (BIMB) in 1983
- International Islamic University Malaysia (IIUM) in 1983
- *Yayasan Pembangunan Ekonomi Islam* (Foundation of Islamic Economic Development Malaysia [YAPIEM])[43] in 1984
- Takaful Company in 1985
- International Offshore Financial Centre (LOFSA) in 1990

[43] *Yayasan Pembangunan Ekonomi Islam Malaysia* (Foundation of Islamic Economy Development Malaysia) was established in 1976. Its functions in collecting voluntary funds to be invested in potential economic activities were reactivated in 1984 and continued until now Wan-Yusuf, W. S. B. ed. 2008. *Malaysian experience on the development of Islamic economics, banking and finance*. International Islamic Economics Conference 7. South Africa. Islamic Center.

The 1980s also witnessed the active involvement of most of the state governments in restructuring their administration of Islamic activities, particularly in the economic sphere. Most state governments restructured their administration of *baytulmal* and some commenced *zakah* collections (Haneef 2001). Although *zakah* is considered compulsory for Muslims, Malaysia is the only major Muslim country to attempt state enforcement of *zakah* collection (Means 1978). Choudhury (1992, cited in (Haneef 2001) asserted in his evaluation of the institutions of *mudharabah* and *zakah* in Malaysia that these two institutions could assist in the realisation of the ethnic goals of the NEP. Although *zakah* has stringent conditions on its use, the redistribution of its funds is fundamentally for uplifting the socio-economic position of Malay-Muslims.

The above observations were made despite the rejection by Ghazali (1998) of the NEP as poverty-alleviation mechanism (Wilson, 1998). Ghazali (1998) argued that the policy had failed to alleviate the poverty of many Muslims although it may have improved the financial position of some Malays. The racial overtones embodied in the NEP were claimed to be the main factor for this failure. In addition, Ghazali (1998) claimed that the NEP was inappropriately implemented with an Islamic approach towards development. He further pointed out that the NEP failed to develop Islamic institutions, notably *hisbah* (accountability), which could ensure that ethical practices are followed by Muslims businessmen and hence reduce corruption. Nevertheless, Rahman (2008) in his evaluation of Islamist activities asserted that the policy proved to be essentially positive in addressing the economic grievances of Malay-Muslims.

<u>Phase II (1991-2000)</u>

In 1991, the Malaysian government launched its new long-term vision of becoming a fully-developed nation in its own form by Vision 2020. As described by Haneef (2001), while the Vision 2020 maintains the nation’s fundamental goals, it is also focused mainly on achieving a ‘fully developed nation’. On achieving this vision, Malaysia is expected to sustain its economic growth and initiate structural changes in the economy as well as the manufacturing sector. The policies and strategies of the thirty-year plan were embraced in the National Development Policies (NDP). They embodied the Second Outline Perspective Plan (OPP2) for a period of ten years (1990 – 2000) and were executed in the Sixth and Seventh Development Plans.

The NDP was a continuation of NEP, both in terms of content and spirit in which it retained ‘the ongoing thrust of NEP in eradicating poverty and restructuring society’ despites a few changes and modifications (Leong 1992). This main shift in the focus includes an eradication of poverty, increasing the participation of *Bumiputera* [44](Malay) in the modern sectors of the economy, greater reliance on the private sector, and comprehensive human resource development that encompasses moral and ethical values. The NDP focused on a more comprehensive perspective of productivity with greater stress on human rather than simply physical capital and a detailed analysis of the links between education and economic development (Wilson 1998).

During these years too, the Malaysian government began to take an interest in the resources generated by Islamic-based resources such as *zakah*, *waqf* and *baytulmal* by initiating consultative and research works involving experts, academicians, practitioners and officials. This was the phase of identifying the potential and opportunities for utilising such resources for the well-being and progress of the Malay-Muslim community. Moreover, the government wanted to ensure that the various socio-economic programmes undertaken by the Islamic-based institutions were effectively integrated with the national planning effort. Despite the relatively few explicit references in the Seventh Development Plan to Islam, there was a mention of the need to upgrade and co-ordinate *waqf* land which was controlled by the state religious authorities (i.e. State Islamic Religious Council) and to use the *baytulmal* funds to increase Malay participation in the corporate sector. It was suggested that the *waqf* lands be developed through joint ventures involving entrepreneurs. This move would be regarded as controversial by conservative religious authorities in many Muslim states. Essentially, such funds (*waqf* and *baytulmal*) are intended to be used to help the poor and needy rather than aiding investors and entrepreneurs.

[44] The term *bumiputera* is used to refer to an indigene, or native. However, the terms "Malay" and “*bumiputera*” are commonly used interchangeably with reference to Peninsular Malaysia, where the vast majority of *bumiputeras* are Malays. This is in contrast to Sabah and Sarawak, where there are many indigenous ethnic groups to which the term "*bumiputera*" can be applied (Siddique and Suryadinata 1981).

Furthermore, there were expansions of the earlier initiatives, particularly, in financial institutions. There was an increase in institutions dealing with Islamic-approved dealings such as interest-free transactions. In 1993, Malaysian commercial banks set up 'Islamic windows' offering the public interest-free products in conformance to Islamic business practices. An Islamic debt market for Islamic bonds was also established in mid-1990s (Haneef 2001). In 1997, the Pilgrimage Fund Board took on a more corporate image as a company, which involved three main businesses: savings, investment and *hajj* (Wan-Yusuf 2008). Although it has been categorized as a non-bank financial intermediary, it plays a significant role in mobilising the savings of pilgrims and other depositors and investing the funds according to Islamic precepts. At the same time, BIMB expanded its operations after ten years in business. The BIMB extended its operations to fifty-two branches, employing 1,280 staff and had 477, 000 depositors. Its growth continued, although not steadily and it remained very much a minor player within its banking sector (Wilson 1998).

Phase III (2001-2010)

This phase covers the development period outlined in the Third Outline Perspective Plan (OPP3) for another ten years (2001-2010) that continues the main agenda of the Vision 2020. Its strategies and policies are embraced in the Eighth and Ninth Malaysia Plans. The first three years of the Eight Malaysia Plan was a period of recovery for the Malaysian economy from the adverse effect of the Asian economic crisis in late 1990s and volatile global economic growth. Despite the poor economic climate, Islamic banking managed to expand its market share of banking assets, deposits and financing, reflecting its increasing prominence, consistent with the Government's efforts to promote this type of banking. At the end of June 2003, the market share of Islamic banking assets rose to 9.4 per cent of the total banking industry[45]. The government expected to develop mutually beneficial strategic alliances with other Islamic financial communities to strengthen the Islamic financial market.

[45] Speech by the then Prime Minister, Dato' Seri Dr Mahathir Mohamad during the Mid-term Review of the Eighth Malaysia Plan to the Parliament held on 30th October 2003.

In consolidating the national efforts towards a fully developed nation by 2020, the administration of Dato' Seri Abdullah Ahmad Badawi[46] introduced a holistic approach towards development, known as *Islam Hadhari* (Civilisational Islam) in 2004. Fundamentally, the approach focuses on the balanced and broad-based development that encompasses the infrastructure and the economy, human resource development via a comprehensive education programme and the inculcation of noble values through spiritual development and assimilation of Islamic values. This was to enable the nation to confront the challenges in the new millennium including the information explosion, the borderless world, the globalised economy, and materialistic culture, crisis of identity, self-esteem and colonisation of thought. The approach was projected as Malaysia's development strategy for the future and was pronounced as a major platform of the Ninth Malaysia Plan to build a national civilisation based on universal principles (Rahman 2008).

The Ninth Malaysia Plan (2006-2010) documents the government's plans to improve the management of Islamic-based institutions, especially relating to *zakah*, *waqf* and *baytulmal* and develop these institutions into effective mechanisms for direct assistance to the targeted poor especially the Muslim *Bumiputera* and other Muslims. The Plan emphasised on integrating the redevelopment of housing settlements with infrastructures and economic facilities, including business and industrial premises on *waqf* land. JAWHAR is given a specific tasking to co-ordinate the establishment of a new entity with the participation of SIRCs to implement programmes in developing *waqf* and *baytulmal* lands into viable economic investments and thus contribute to the development of Bumiputera Commercial and Industrial Community (BCIC). In addition, the government will enhance the database of *waqf, zakah* and *baytul-mal* assets and funds. For the purpose of developing the institutions of *zakah*, *waqf* and *baytulmal,* the government has allocated RM250 million which is managed by JAKIM and its related agencies.

[46] Dato' Seri Abdullah Ahmad Badawi was the fifth Prime Minister of Malaysia, serving the country from 2003to 2009.

3.7 The *Waqf* Management in Malaysia

This section describes the management of *waqf* in Malaysia, which is an area of interest in the study. The development of *waqf* management in Malaysia from the historical perspective is dealt with in the first sub-section. The second sub-section deliberates on the present *waqf* management in Malaysia. This section also deliberates inherent challenges faced by *waqf* administrators in Malaysia.

3.7.1 The Historical Perspectives of *Waqf* Management

There is no consensus as to when *waqf* first originated in the Malay Muslim world. It is acknowledged that *waqf* has existed in Malaysia since the advent of Islam and it became the general practice among Muslims, although it was not so widespread as in the Ottoman Empire, Egypt, North Africa and India (Mahamood 2006). It is presumed that the Kg. Hulu Mosque in Malacca, the Sultan Abu Bakar Mosque in Johore and Kg Laut Mosque in Kelantan can be treated as some examples of the early creations of *waqf* in Malaysia (Mahamood 2006).

The practice of *waqf* continued during the existence of colonial powers of the Portuguese, the Dutch and the Japanese, as well as the British although there was no significant growth to be acknowledged. The British had reduced Islam from being a comprehensive mode of life to being merely a religious belief in Malaysia. Thus, the practice of endowing personal assets became prevalent for two reasons. First, the development of *waqf* in Malaysia was encouraged by the Muslims who were concerned about the secular policies of the British colonial rules that reduced Islam from being a comprehensive mode of life into being merely a religious belief in Malaysia (Cizacka 2000b). Muslims, both local and foreign traders (i.e. mostly Arab and Indian traders) were seriously concerned about maintaining their religious belief and the need to safeguard the sanctity of Islam. Consequently, Muslims were encouraged to create *waqf*, which includes the erection of mosques and educationally- related infrastructures to promote religious education and thus strengthen the religious belief. It was also became a normal practice that the trusteeship of these *waqf* assets were assigned to respectable individuals, such as the *penghulus* (village heads), the *kadis,* religious teachers, mosques' committees or other people appointed by the mosque committee. In most cases, the handing over of properties as *waqf* and the assignments of trusteeship were not appropriately documented. Subsequently, no proof or evidence would be provided if the properties were not applied in accordance with the stipulated objectives. Some of these properties were alleged to have been seized and sold to pay the founder's debts. There were also circumstances in which the trustees disappeared and thus the *waqf* were transferred to other individuals who were untraceable.

Secondly, the situation highlighted in the preceding paragraph raised concerns in British government which led to various developments in terms of regulations and management. *Waqf* management underwent major reorganisation through the introduction of the Torrens system that divided land through cadastre surveys, into privately-held property and the promulgation of the *Waqf* Act in 1911 that introduced restrictions on the creation of new *waqf* (Cizacka 2000b). The impact of this enactment was the fragmentation of *waqf* lands and the prohibition of the establishment of any new *waqf*. The Malay Muslims lost the freedom to declare their lands as *waqf* until the enactment was repealed in 1978. Mahamood (2006) claimed that the abuses of *waqf* properties and misadministration of the *waqf* funds by the *waqf* administrators had prompted the British government to intervene in the administration of *waqf* as 'it could no longer be avoided'(p. 31) due to 'inferior management and lack of systematic accounts' (p. 33). The British government became directly involved in the administration of *waqf* in the Strait Settlements (i.e. Penang, Malacca and Singapore) as these states were not ruled by *Sultans* (Rulers). In the Federated Malay States and the Unfederated Malay States, however, the British government did not become directly involved in the administration of *waqf*. Each of these state governments managed their assets themselves with the involvement of the Rulers.

The first step of regulating the *waqf* management was the enactment of the Mahommedan and Hindu Endowment Ordinance (MHEO) in 1905. MHEO which was primarily enacted to regulate *waqf* management in the SS aimed to provide a better administration for religious and charitable foundations as well as removing abuses (Mahamood 2006). Soon after this, the Mahommedan and Hindu Endowment Board (MHEB) were established in 1906 to undertake the administration of religious and charitable foundations. Under the Board's administration, all religious and charitable foundations were registered for the purpose of supervision, which include the preparation of accounts and close monitoring on the expenditure of *waqf* properties. These two developments, however, were claimed to have completely taken over the power of appointments from the natives as well as influence over key religious and community appointments.

Later, an enactment known as the *Waqf* Prohibition Act 1911 aiming to secure the abolishment of family *waqf* was promulgated in Johore but later repealed in 1938. After this, there was no explicit promulgation of the management of *waqf* until in the 1950s, which mainly dealt with the appointment of State Islamic Religious Councils (SIRCs) as the sole *waqf* trustees (Mahamood 2006). This move was claimed to have been a 'massive centralization programmes' of *waqf management* (Cizacka 2000b). The role of the state in supervising and regulating *waqf* institutions Malaysia gradually became apparent by the 1970s (Cizacka 2000b). However, the history of SIRC became the sole trustee of *waqf* assets dating back to 1916, when a Council of Religion was established in Kelantan to look after mosques, which were mainly erected as *waqf*. The appointment of SIRC as the sole trustee of *waqf* assets and funds in Kelantan was only legalised in 1938. This was later repealed by the Council of Religion and Malay Custom Enactment 1953. A series of laws were then enacted in most of the states, with Selangor being the first state to legalise its SIRC as the sole trustee of *waqf* assets and funds in the state via the Administration of Muslim Law Enactment 1952. The latest appointment was made by the state of Johore via the Administration of Islamic Law Enactment 1978. The promulgation of the enactments diverged in time as some of them were promulgated after Malaysia gained her Independence in 1957. Table 3.1 listed the state enactments pertaining to the appointment of SIRCs as the sole trustee of *waqf* assets funds. Among the pertinent clauses of these enactments are:

i. The State Islamic Religious Council (SIRC) or *Majlis Ugama dan 'Adat Melayu* is the sole trustee of all *waqf* properties;

ii. All documents pertaining to *waqf* must be kept by the SIRC;

iii. The SIRCs must take the necessary steps to transfer the ownership of all *waqf* properties to itself;

iv. All moneys received from specific *waqf* properties must be used according to the purpose for which such properties were intended; and

v. All moneys received from general *waqf* properties must be kept in the general fund of the SIRCs or *baytulmal*.

(Cizacka 2000b)

Table 3.1 : A Summary of the State Enactments on the Appointment of SIRCs as the Sole Trustees of *Waqf* in Malaysia

No.	States	Year	Enactments
1.	Perlis	1964	The Administration of Muslim Law Enactment 1963
2.	Penang	1959	The Administration of Muslim Law Enactment 1959
3.	Kedah	1962	The Administration of Muslim Law Enactment 1962
4.	Perak	1959	The Control of Wakaf Enactment 1959
5.	Selangor	1952	The Administration of Muslim Law Enactment 1952
6.	Negeri Sembilan	1957	The Council of Muslim Religion Enactment 1957
7.	Malacca	1959	The Administration of Muslim Law Enactment 1959
8.	Johor	1978	The Administration of Islamic Law Enactment 1978
9.	Pahang	1956	The Law of Religion 1956
10.	Terengganu	1955	The Administration of Islamic Religious Affairs Enactment 1955
11.	Kelantan	1953 (1938)	The Council of Religion and Malay Custom 1953
12.	Sabah	1971	The Administration of Muslim Law Enactment 1971
13.	Sarawak	1954	Majlis Islam (Incorporation) Ordinance 1954
14.	Federal Territory	1974 (1952)	Modification of Administration of Muslim Enactment 1974

Source: Mahamood (2006)

3.7.2 The Present Management of *Waqf*

The present *waqf* management is essentially based on the legal stipulation in the Section 3.4.1, Article 3(1) of the Malaysian Constitution that the religion of Islam and its affairs are under the jurisdiction of each state government. List II (1) of the Ninth Schedule (thereafter referred as List II), stipulates *waqf* as part of the items for the state jurisdiction as follows:

> '*Except with respect to the Federal Territories of Kuala Lumpur and Labuan, Islamic law and personal ... wakaf (waqf)... the determination of matters of Islamic Law'*

Each state promulgates enactments to govern the administration of Islam and its relevant matters. These circumstances have led to the incoherent implementation of some aspects of Islamic laws, which include the *waqf* practices (Cizacka 2000b; Sayin et al. 2006). The following sections provide an overview of *waqf* management in Malaysia, both at the state and federal level.

3.7.2.1 SIRCs as the Sole *Waqf* Trustees

As pointed out in the previous section, the appointment of SIRCs as the trustees of *waqf* assets was for the fundamental reason of improving the management of *waqf* (Cizacka 1998a; Mahamood 2006; Ahmad 2007; Manat 2007). The designation of 'sole trustee of *awqaf*[47] assets' implies that SIRCs of each state have been legally appointed by their respective legislations to supervise all *awqaf* assets and be responsible for their management and development' (Mahamood 2006). There are no other parties or bodies that can hold the trusteeship, except for any trusteeship prior to the enactment of the relevant laws. SIRCs are empowered to appoint any individual or a committee, acting as its representative, to execute the administrative duties of the trusteeship of the assets, which is stipulated in its respective enactments of the administration of Islam and its affairs (Mahamood 2006). By and large, the administrative structure established in each SIRC depends on the quantity and value of *waqf* assets entrusted to them (Mahamood 2006). To date, there are three typical types of administrative structure in SIRCs with

[47] *Awqaf* is the plural for *waqf* in the Arabic language. The study, however, predominantly uses the term *waqf* for the purpose of consistency and understanding. The term *awqaf* is used only when directly referring to the work of other researchers. Chapter Four discusses in greater detail on *waqf*.

regard to the administration of *waqf*. The first type of administrative structure involves the establishment of a specific *waqf* division to take charge the overall administrative aspects of *waqf*. This administrative setting is only in existence in the SIRC of Penang. This setting allows the *Waqf* Division in the SIRC of Penang to align its focus and resources, particularly human resources, exclusively for aspects of *waqf*.

The second type of administrative structure, which has been adopted by the majority of SIRCs, manages the administrative aspects of *waqf* along with *zakah* and *baytul mal* under the responsibility of a division. The administrative matters of *waqf* are allocated to a sub-unit of the division governing other resources of SIRCs. For instance, in the SIRC of Malacca, a *Waqf* Unit is managed alongside the General Resources Unit by the Division of *Waqf* and General Resources. In the state of Perak, a more general division of Property Division is assigned to handle all aspects of *waqf* in the state together with the *baytul mal* and the general administration of the SIRC. This administrative arrangement is prevalent in the SIRCs of Perlis, Kedah, Perak, Selangor, Negeri Sembilan, Malacca, Johor, Pahang, Terengganu, Kelantan, and the Federal Territories of Kuala Lumpur (Sayin et al. 2006). In some of these SIRCs, a specific committee is established to strengthen the administration of *waqf*. The SIRC of Selangor under the Wakaf Enactment (State of Selangor) 1999[48] established the Wakaf Management Committee, which is responsible for the management of *waqf*. Meanwhile, the Control Wakaf Rules 1959 in Perak has created the State Wakaf Control Committee to advice on all matters relating to *waqf* and their general administration. The SIRC of the Federal Territories of Kuala Lumpur appointed the Development and Investment Committee to deal with the development and investment of *waqf* assets. It is argued, however, that this arrangement has affected the morale of the personnel involved in the management of *waqf* in trying to fulfil the overlapping responsibilities (Mahamood 2006).

The third type of administrative arrangement involved the corporatisation of the *baytulmal* management, of which *waqf* activities form a part (Mahamood 2007b). This corporatisation initiative was undertaken with a primary objective of improving the

[48] SectionVII of the *Wakaf* (State of Selangor) Enactment 1999 stipulates the setting up of *Waqf* Management Committee (*Jawatankuasa Pengurusan Wakaf*). Member of the Committee are also stated in the section.

effectiveness and efficiency of the overall delivery systems of the *baytulmal* management. In Sarawak, the *Tabung Baitulmal Sarawak* (Sarawak Baitulmal Fund) was incorporated in 1984 under the Majlis Islam Sarawak Ordinance (Incorporation) (Amendment) 1984. Based on the ordinance, the Sarawak Baitulmal Fund is managed by the *Lembaga Baitulmal dan Wakaf* (Baytul Mal and *Waqf* Board). In Sarawak Baitulmal Fund, aspects of *waqf* are primarily handled by the Syariah Services and Wakaf Unit, which was created under the Zakat Affairs Division. In Sabah, the Baitulmal Corporation Enactment 1998 (Sabah No. 11 of 1998), appointed the *Perbadanan Baitulmal Negeri Sabah* (Sabah Baitulmal Corporation) to administer and control the council's *Kumpulan Wang Baitulmal* (Baitulmal Fund) effectively from 2005. The Corporation is primarily responsible for the development of the assets and properties vested in the council, which include *waqf* assets and funds. At the same time, the processes of transferring the title of *waqf* assets and funds under the name of the SIRC and informing the public on *waqf* matters are still undertaken by the Division of Assets and Property Development of the council. The summary of the *waqf* administrative arrangement in SIRCs is displayed in Table 3.2.

Furthermore, the trusteeship of *waqf* assets in SIRCs entails four fundamental responsibilities. First, SIRCs is responsible for ensuring that all *waqf* assets and funds vested in them are being administered and applied in accordance with the stipulations of the *waqf* when they were created (Mahamood 2006). Thereby, SIRCs shall retain all instruments of the *waqf* assets and funds, together with their documents of title and any other relevant documents. SIRCs shall also take the necessary steps in registering all *waqf* assets and funds as well as carrying out investigations frequently on the well-being of the assets. The lack of systematic and written documents on *waqf* assets and properties has obscured land registration in the name of SIRC (Mahamood 2006). A significant proportion of *waqf* land has yet to be registered and there are cases that these lands are untraceable or 'lost' through the processes of confiscation by authorities (Ahmad 2007). In the state of Johor, for instance, approximately 30% of a total of 2,477 acres *waqf* land has yet to be registered in the name the SIRC (Manat 2007). The circumstances have also caused the widespread of illegal settlements and trespassing on the waqf land, which hamper the physical development of the assets concerned.

Table 3.2: A summary of the *Waqf* Administrative Structure in SIRCs			
No.	**State**	**Type of Administrative Structure**	**Name of Division/Sub-Units/Organisation in charge of *waqf***
1.	Perlis	Sub-unit	*Waqf* Unit
2.	Penang	Division	*Waqf* Division
3.	Kedah	Sub-unit	*Waqf* Unit, Baitumal Division
4.	Perak	Sub-unit	*Waqf* Unit, Property Development Division
5.	Selangor	Sub-unit	*Waqf* Unit, Mal Division
6.	Negeri Sembilan	Sub-unit	*Waqf* Unit, Baitulmal Division
7.	Malacca	Sub-unit	*Waqf* Unit, *Waqf* and General Resources Division
8.	Johor	Sub-unit	*Waqf* Unit, Zakat, Baitulmal and *Waqf*
9.	Pahang	Sub-unit	*Waqf* Unit
10.	Terengganu	Sub-unit	*Waqf* Unit, *Waqf* and General Resources Division
11.	Kelantan	Sub-unit	*Waqf* Unit, Baitulmal Division
12.	Sabah	Sub-unit/ Corporatisation	*Waqf* Unit, Property Development Division/Sabah Baitulmal Corporation
13.	Sarawak	Corporatisation	Syariah Services & *Waqf* Unit, Zakat Affairs Division
14.	Federal Territory	Sub-unit	*Waqf* Unit & Development Unit

Second, the responsibility of SIRCs involves safeguarding the *waqf* assets. In executing its functions effectively, SIRCs may develop and apply specific laws, rules and procedures to govern the administration of *waqf*, which cover both the administrative and financial aspects (Mahamood 2006). The states of Selangor, Negeri Sembilan and Malacca[49] have promulgated regulations exclusively for the administration of *waqf*, while the rest of the states incorporate aspects of the *waqf* in the regulations of the administration of the religion of Islam. With regards to illegal settlements and trespassing, some states such as Selangor, Johore, Terengganu, Negeri Sembilan, Sarawak and Malacca have provisions for penalties to be enforced on respective transgressors. To further strengthen the roles of safeguarding *waqf* assets, SIRCs

[49] Wakaf (State of Selangor) Enactment 1999 (No.7 Year 1999), Wakaf (State of Malacca) Enactment 2005 (No.5 Year 2005) and Wakaf Enactment (Negeri Sembilan) 2005 Mahamood, S. M. 2006. *Waqf in Malaysia: Legal and administrative perspectives*. First ed. Kuala Lumpur: University Malaysia Press, p. 191.

adopted appropriate rules and procedures issued by relevant authorities. The SIRCs of Terengganu and Kedah developed their internal guidelines on procurement procedures and financial management. These guidelines made significant reference to the Treasury Instructions by the Treasury and *Amalan Terbaik Kewangan Majlis Agama Islam Negeri* (Best Practices of Finances for SIRCs) by the Auditor General Department. To date, JAWHAR has issued four guidelines on the administration of *waqf* in SIRCs, namely, the Manual for *Waqf* Accounting, the Manual for *Waqf* Law, the Manual for Cash *Waqf* and the Manual for *Waqf* management.

Third, SIRCs are responsible for the development of the *waqf* assets and funds vested in them. A number of SIRCs have established separate entities[50] to help them in the development of *waqf* assets and other assets (Mahamood 2006). Recently, the commercial sector has begun to become involved in the development of *waqf* assets and funds although it has been asserted that this is primarily due to the potential of the assets. For instance, Tabung Haji Properties Sdn Bhd invested RM150million to develop a potential *waqf* land endowed by Ahmad Dawjee Dadaboy in the 'golden triangle' area of Kuala Lumpur (Ahmad 2007). As far as the Malaysian government is concerned, it has provided RM250 million in its Ninth Malaysia Plan to spearhead the development of *waqf* assets in Malaysia.

The fourth responsibility of SIRCs as *waqf* trustees is concerned with the reporting of the performance of the *waqf* management. Manat (2007) asserted that the lack of transparency in the management of *waqf* contributed to the lack of public confidence to endow their assets and funds as *waqf*. Each state enactment states the requirement to produce relevant financial statements and accounts mainly for the purpose of auditing and reporting (gazetting).

[50] Maim Properties Sdn Bhd (Malacca), Edi Fajar Development Sdn Bhd (Negeri Sembilan), As Sahabah Holding (Penang), Bakti Suci Properties Sdn Bhd (Selangor) and Pusat Rawatan Islam Sdn Bhd and Baitumal Zenith Battery Sdn Bhd (Federal Territory Kuala Lumpur)

3.7.2.2 Coordination of *Waqf* Management at the Federal Government Level

Waqf management in Malaysia is known to have experienced inherent problems, predominantly legal, financial and human resource issues (Mahamood 2006; Ahmad 2007; Mahamood 2007b) as follows:

- Legal aspects: The empowerment of Islam and its affairs on state governments has important implications on the interpretation and consequently the implementation of some fundamental practices of Islam. Each state promulgates regulations to govern the administration of Islam and its relevant matters. These circumstances have led to incoherent implementation of some aspects of Islamic laws, which include the *waqf* practices (Cizacka 2000b; Sayin et al. 2006).

- Financial resources: Financial constraints have been cited as the major drawback in developing *waqf* assets in SIRCs, as the majority of SIRCs are self-sustaining. The financial resources are very limited within SIRCs in comparison to the magnitude of goods and services to be delivered. Financial support from the federal government is very restricted, while commercial or private enterprises are generally less attracted to developing *waqf* assets due to the risks of not generating profits or only recovering the investment after quite a long time through rental or leasing.

- Human resources: SIRCs suffer from two aspects of human resources in undertaking the ever-increasing *waqf* activities: first is lack of manpower supply and second is deficiency in the expertise of the manpower (Mahamood 2006). Most SIRCs have a small number of personnel undertaking *waqf* activities and they are already burdened with the existing tasks. Although Mahamood (2006) claimed that symptoms of motivational problems are rife among personnel at SIRCs, the overlapping responsibilities have been identified as one of the reasons for obstructing the development of *waqf* assets. SIRCs are also required to have personnel with expertise on investment analysis, project management or property evaluation to undertake proper supervision of *waqf* properties (Mahamood 2006; Manat 2007).

Despite the demarcation in the administration of the religion of Islam and its affairs between the federal and the state governments, numerous efforts were undertaken at the federal government level to coordinate and facilitate the aforementioned incoherence and deficiencies in the *waqf* management. Among them was creation of the *Wakaf* Development Corporation (Malaysia) Sdn Bhd as a result of the Third *Bumiputera* Congress held by the YAPIEM held in 1995 (Sayin et al. 2006). The Corporation, which was endorsed by the cabinet ministers, was primarily established to assist SIRCs in the development of potential *waqf* assets besides strengthening the database for the assets and arranging for their registration (Mahamood 2006; Sayin et al. 2006). The Corporation has carried out a number of entrepreneurial and agricultural projects on some of the *waqf* lands. The financial resources for these projects were raised mainly through voluntary contributions from the public (Sayin et al. 2006; Wan-Yusuf 2008).

Later when JAKIM was created in 1997, its Baitulmal Division and Research Division were assigned to help SIRCs in coordinating and improving the management of *waqf* assets (Mahamood 2006). The former division assisted SIRCs in the determination and surveying of *waqf* assets while the latter focused on efforts and researches to ensure the effective and uniform management of SIRCs. It was under this latter division that the proposal was made to establish a specific department to take charge of *waqf* development in Malaysia. In 2004, JAWHAR was established and one of its primary objectives is to strengthen the management of *waqf* in Malaysia. The *Waqf* Division has set out fundamental objectives pertaining to the *waqf* management in SIRCs, namely, coordinating the *waqf* administrative systems, overseeing the overall development of *waqf* and offering advisory services for organisational development. To date, JAWHAR has issued four guidelines in an attempt to address the incoherence of *waqf* systems in Malaysia.

The latest institution created by the Malaysian government is the *Yayasan Wakaf Malaysia* (Malaysia *Waqf* Foundation), an associated agency of JAWHAR. It effectively commenced its operation in June 2008 (having been founded in 2006). The foundation was set up under the Trustees Incorporation Ordinance 1952 following the resolutions of the National *Waqf* Convention held in 2006. The Foundation is expected to work closely with SIRCs, the sole trustee of *waqf* assets and funds, in developing such assets and properties throughout the country. The five main thrusts of the Foundation are as follows (Ahmad 2009):

- To accumulate *waqf* fund

  The Foundation shall hold various programmes to accumulate funds for the *Tabung Kumpulan Wang Amanah Yayasan* (Foundation Trust Fund) which shall be used as economic capital for the Muslim community.

- Developing *waqf* properties

  The Foundation shall embark on collaborations and research with the SIRCs and institutes of higher learning to develop and enhance *waqf*.

- Investment programmes

  The Foundation shall invest the available funds in *Shari'ah*-compliant activities and programmes.

- Social and welfare programmes

  The Foundation shall be involved in social and welfare programmes including sponsorship of students' learning programmes and providing necessary assistance to the needy and the poor.

- Promotions and publications

  The Foundation shall engage in conferences, seminars and intellectual discourses as well as publications to disseminate its missions more widely.

3.8 Summary

The chapter has offered an overview of the Malaysian government administrative and governance structures. The administrative structure of the Malaysian government is organised in three tiers: federal, state and local authorities. Federal government organisation consists of Ministries, Departments, and Statutory Bodies. State governments, in most instances, have the same administrative structure as the Federal government. State Executive Councillors (State EXCO), Departments and State Statutory Bodies constitute the state government administrative framework. Governance structure in Malaysia, both at the Federal and state level, is based on the 'separation of power' to each of the legislative, executive and judicial authority to ensure a fair and just governance system. In addition, the Malay rulers also appear in the administrative structure and governance system of Malaysia, particularly with respect to the administration of Islam and its affairs. The Malaysian Constitution empowers state governments to administer the religion of Islam and confirms the Malay rulers as the head of Islam. Accordingly, each state government has enacted its distinct laws to govern the administration of Islam and its affairs. Consequently, there exists an incoherent implementation in the Islamic laws due to inconsistent interpretations among states on some Islamic precepts. Although the situation is not apparent, it obscures some fundamental development in the administration of Islam in the country. This includes the management of *waqf*.

This chapter also offered a review of the crucial role of the Malaysian government, at both Federal and state level, in the advancement of Islam and its institutions from the socio-economic perspectives. Islam constitutes an integral part of Malay identity, and it is directly tied to Malaysia's elaborate system of Malay special privileges. Thus the government policies on economic development are intertwined with public policies regarding Islam. The appearance of Islam in the national development agenda only became apparent in the 1980s and onwards as the government was more concerned with expansion and poverty eradication directly after Independence in 1957. The Malaysian government began to incorporate Islamic ideals into its development agenda, with the two remaining the pillars of the national development agenda. The government introduced interest-free Islamic financial systems and established several

Islamic institutions as well as encouraged researches and education activities on Islamic economy. In the 1990s, public sector reform initiatives that promoted effectiveness and accountability seemed to work well with the Islamic ideals in strengthening the development agenda in Malaysia. More importantly, *zakah*, *waqf* and *baytul mal* were gaining more attention within the development framework in the provision of social goods and services in Malaysia. In the Ninth Malaysia Plan, the Malaysian government provided RM250 million to steer the development of *waqf* assets.

The following chapter presents an overview of the accountability and the New Public Management.

CHAPTER FOUR: ACCOUNTABILITY AND THE NEW PUBLIC MANAGEMENT

4.1 Introduction

The aim of this chapter is to present the underlying theoretical framework governing the study, mainly the accountability and New Public Management (NPM). The accountability framework offers a discussion on the concept of accountability that is premised on the principal-agent relationship. This is followed by a discussion on the relationship between autonomy and accountability. The section also discusses the concept of accountability from the perspective of Islam and the institutional accountability framework for *waqf* management in Malaysia. In the second section of the chapter, the public sector reforms under the banner of NPM and its theoretical underpinning are elaborated upon. This includes the antecedents leading to public sector reforms and reflections on the implementation of these reforms that has taken place over the last two decades. Public sector reforms in other developing countries including Malaysia are presented, which is followed by a subsection discussing the impact of public sector reforms on public sector accountability.

4.2 The Accountability Framework

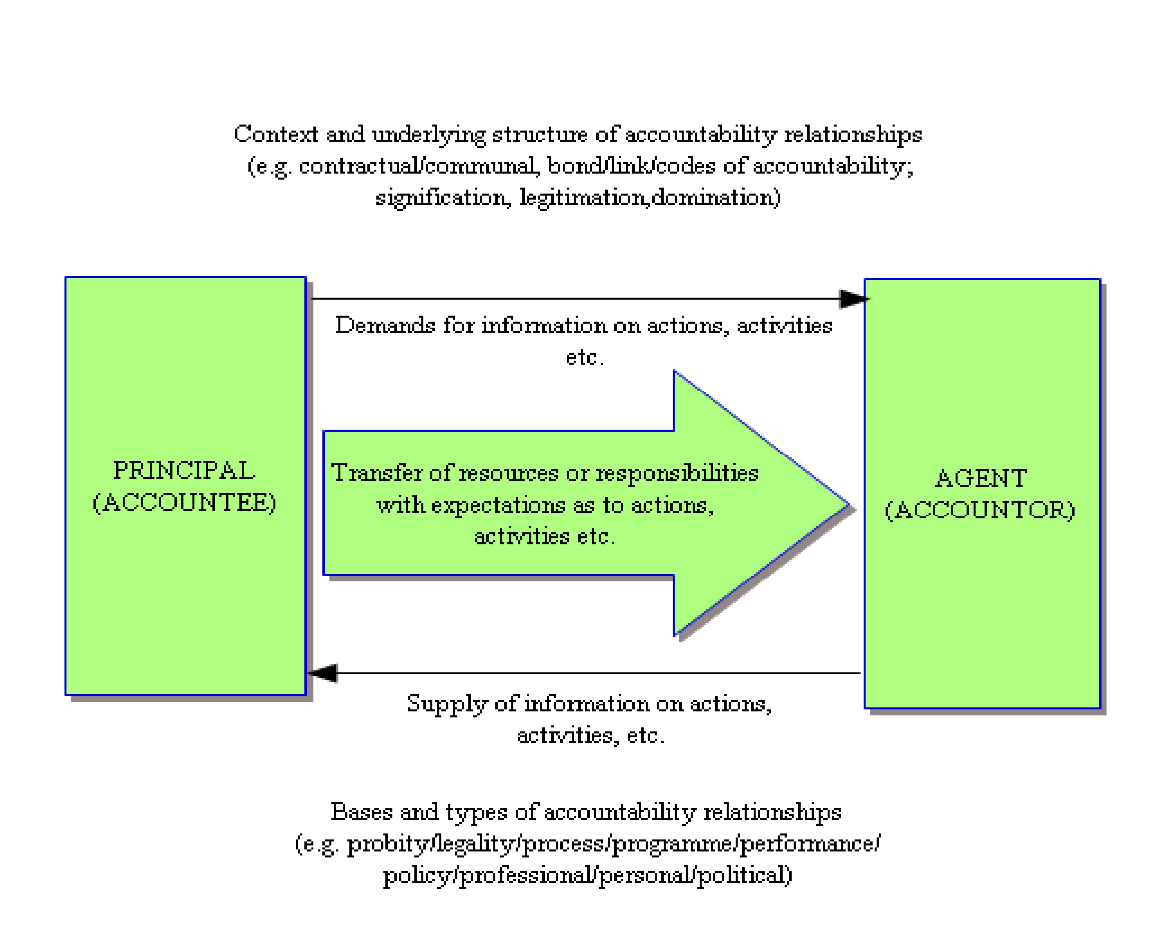
Accountability is a cornerstone in the management of public sector and non-profit organisations. The concept of accountability is relevant in describing the *waqf* management in Malaysia, with SIRCs having been appointed as the sole *waqf* trustees. This section presents the concept of accountability, accountability from the Islamic perspective, and the institutional accountability framework for *waqf* management in Malaysia.

4.2.1 The Concept of Accountability

Accountability denotes the 'giving and demanding for reasons of conduct' (Roberts and Scapens 1985). The giving or transfer of resources and/or responsibilities results to expectations of information or a demand for explanations surrounding actions and activities of an accountability relationship (Stewart 1984; Gray et al. 1988; Hyndman 1990; Laughlin 1990; Gray and Jenkins 1993; Sinclair 1995; Gray et al. 1996). This concept of accountability can be illustrated by the principal-agent relationship drawn from the agency theory as illustrated in Figure 4.1. The basic insight of this relationship consists of an agent (individual, organisation or government) that is directly or indirectly held accountable to another party (principal) for something; actions, processes, output or outcomes, but the latter suffers from an information asymmetry (Patton 1992; Kearns 1994; Broadbent et al. 1996; Walker 2002). Broadbent et al. (1996) argued that there were two types of asymmetric information in this context: hidden information (or adverse selection) and hidden action (or moral hazards). Hidden information arises when the information becomes available after the completion of transactions, while hidden action asymmetries exist when the agent's actions can affect the outcomes that occur but these are not observable by the principal. In the case of high or low productivity, for instance, hidden information involves specification of the relationship between inputs and outputs while hidden action arises when the principal is uncertain of the actions taken by the agent.

Information is not always passed on in its entirety to a principal (accountee) despite the principal having the right to demand an explanation (an account) for the performance (or non-performance) of resources transferred or responsibilities delegated to an agent (accountor) (Gray and Jenkins 1993; Ibrahim and Yaakob 2006). The formality and specificity of information in terms of a contract has ramifications not only for the demands for information but also for its supply from the agent (Broadbent et al. 1996). This situation has resulted in the 'bases' and types of accountability relationships, as shown in Figure 4.1. However, the extent of contracts and their specifications depend on the level of expectation of the principal; the more ignorant the principal is of outputs and transformation utility possibilities, the less feasible is detailed control by optimal contract. Stewart (1984) proposed the circumstances involved in hierarchical accountability relationships, described as the 'ladder of accountability'.

Figure 4.1: The Concept of Accountability



Source: Gray et. al (1996)

Each of the different levels of accountability in the 'ladder of accountability' has varying information needs, with tighter information and more precise accounts of actions expected as the hierarchy of the accountability moves up the 'ladder of accountability' (Stewart 1984; Broadbent et al. 1996). Since accounting information imparts visibility and with it particular meanings and significance upon activities (Ezzamel 1997), it can play a part at all levels of the 'ladder of accountability'. The following discusses the accounts expected from the agent at each level of the accountability hierarchy.

- Accountability for probity and legality

The first level of accountability is concerned with public funds and resources being used in an appropriate and legally acceptable manner. Thus, ‘probity and legality’ information deals only with the legality of expenditure patterns and gives freedom to the agent to pursue whatever actions seems appropriate (Broadbent et al. 1996). It is also known as financial accountability, and disclosures and reporting of financial information in financial statements appear to be adequate for the discharge of this type of accountability.

- Process accountability

The second level of accountability accounts for the details of the action processes followed by the agent. The ‘process’ information is only about the means adopted rather than the ends of actions and activities. Thus, this leaves considerable freedom to the agent to pursue any means deemed appropriate as long as the processes employed are made visible to the principal and open to any disciplinary reaction.

- Performance and programme accountability

The third level, which is also known as managerial accountability, is intended to provide an account of the total work performance of the agent as set by the principal. In terms of information, they intend to give, in precise terms, the output, outcomes and results achieved by the agent. At this level of accountability, the principal attempts to predetermine the behaviour of the agent according to the principal’s precise goals and expectations. Also at this level, the level of accounting technology is apparent as it does not involve only the interpretation of goals into measurable outcomes (Broadbent et al. 1996) but the uses of resources must also be cost effective and efficient (Sinclair 1995).

- Policy accountability

Finally, the highest level of accountability is concerned with strategic issues of pursuance or non-pursuance of policies approved. Similarly, at this level, the principal decides the behaviour of the agent.

A further element in the accountability relationship is that of the more implicit context that surrounds the relationship between principals and agents (refer to Figure 2.1). Laughlin (1990) described this as 'communal' and 'contractual'. The communal context encompasses a less formal set of accountability relationships where action expectations and information demand and supply are less structured and defined. In effect, this context is hierarchical, thus privileging the principals. This is said to have similarities with the 'socialising' form of accountability by Roberts (1988) or Birkett's 'gemeinschaft' model. In contrast, the 'contractual' context encompasses a much more formal set of accountability relationships wherein action expectations and information demand and supply are precisely defined and clearly specified. The expectations of the principals will be more formalised and defined, thus involving greater use of written commands as well as accounting-type information from the agents. Although written commands and reports are significant control instruments in a 'contractual' context, the unwritten laws of behaviour can be as powerful in a 'communal' context in terms of control instruments (Broadbent et al. 1996). Another important point on the context of accountability highlighted by Roberts and Scapens (1985) is that each of the accountability relationship contains a particular structure of signification (meaning), legitimation (morality) and domination (power). Following Gidden's Theory, each system of accountability involves a moral relationship whereby a party is exercising power over another to ensure that something, meaningfully defined, is done by that other party (Roberts and Scapens 1985).

Leruth and Paul (2007) indicated that a number of government operations can be assimilated to principal-agent relationships. In the public sector, corruption and mismanagement exist as a result of asymmetric information and interest divergence between the agent (government executives) and the principal (the parliament). One could consider the parliament as the principal, whose objective is to make sure that the government executives (the agent) implement the government's policies. The occurrence of a low level of outputs in a government agency could either be due to the state of nature or the misbehaviour of government executives (the agent). A contract that specifies a level of outputs associated with the level of inputs may act as a control mechanism in reducing the impact of information asymmetry, such as misgovernance and mismanagement by the better informed accountor (LeruthLuc and Paul 2007).

Accountability remains an elusive notion despite numerous attempts to define and understand the term (Stewart 1984; Gray et al. 1988; Laughlin 1990; Roberts 1991; Patton 1992; Gray and Jenkins 1993; Goddard and Powell 1994; Sinclair 1995; Ahrens 1996; Parker and Gould 1999). Its 'chameleon' nature leads to accountability being subjectively defined on the ground of ideologies, motifs and language of the time (Sinclair 1995; Glynn and Murphy 1996; Mulgan 2000; Walker 2002; Dubnick and Justice 2004). In addition, accountability is also often used interchangeably with responsibility, as it has gained ground on the concept of responsibility (Erkkila 2007). Nonetheless, its operation and scope have been argued to be much wider and more insistent than responsibility (Sinclair 1995; Parker and Gould 1999). In public sector organisations that inherently have manifold organisational objectives and serve diverse groups of stakeholders, the existence of multifaceted accountability relationships and dimensions seems inevitable (Sinclair 1995; Parker and Gould 1999; Ryan and Walsh 2004). There are instances where accountability to one authority under one standard violates the expectations of legitimate sources of authority under another standard, while one type of accountability relationship can be used to trigger another type of accountability. Sinclair (1995) illuminated the situation of multi-dimensional accountability relationships when investigating Australian public sector managers' experiences of accountability. She uncovered that the senior management faced at least five accountability relationships, namely, political, public, managerial (or financial), professional and personal, and at times they endured conflicting senses of accountability. This senior management level in public sector organisations understand their jobs by looking into their accountability relationships. A mixture of hierarchical/managerial accountability, which is generally recognised as public accountability, was a common accountability relationship in public sector organisations (Laughlin 1990; Ryan and Walsh 2004). A survey of Malaysian local authorities' departmental managers by Othman (2008) showed a very similar situation as of Sinclair (1995), with three common accountability dimensions, namely, managerial/public, fiduciary/compliance and political accountabilities.

In summary, accountability is a dynamic concept and its existence and nature may vary among agencies and within agencies (Romzek 2000; Dubnick 2003; Erkkila 2007). Accountability is essentially about institutions, mechanisms and procedures set to work in a world of hard and practical reality (Barberis 1998). It has also been argued that it involves a moral order of a system of reciprocal rights and obligations (Parker and Gould 1999). Roberts (1991) asserted that accountability is a social relation that has both moral and strategic dimensions and could be understood as something a person feels or even an ‘artefact of scrutiny’. The application of accountability must meet the moral and spiritual goals of the organisations, as in the following definition of accountability:

> *“… the duty of an entity to use (and to prevent the misuse of) the resources entrusted to it in an effective, efficient and economical manner, within the boundaries of the moral and legal framework of the society, and to provide an account of its actions to accountee who are not only the persons who provided it with its financial resources but to groups within society and to society at large.*
>
> (Ibrahim, 2000, p. 247)

4.2.2 Autonomy and Accountability

Autonomy and accountability are both fundamental pre-requisites for the effective functioning of state-owned enterprise or statutory agencies (Islam 1993). Autonomy refers to the quality or state of being autonomous, self-governing, without outside control or independent in government, with accountability acting as a control (Ezzamel 1990; Islam 1993). There are two common types of autonomy: managerial and strategic. Managerial autonomy that is often found in public sector organisations involves granting greater freedom and flexibility to managers in day-to-day decision-making, including fiscal operations (Islam 1993). For instance, the autonomy offers the opportunity to decide (to a greater or lesser extent) the amounts that are collected, with the privilege of deciding freely how these funds will be spent (Oulasvirta and Turala 2009). In essence, managerial autonomy is expected to involve flexibility in financial decisions (OECD 1994). In contrary, strategic autonomy refers to being able to give an opinion on aims and objectives of the organisations and also suggesting how the aims and objectives can be translated into targets (OECD 1994).

The performance of an organisation is expected to improve by allowing it to make decisions appropriate to its specific situation and environment; letting decisions be made by those possessing greater knowledge of their impact; motivating staff by giving them with some discretion rather than stifling them with rigid rules and regulations; and off-loading decisions in order to free up the higher levels of decision-making (OECD 1994; Oulasvirta and Turala 2009). For instance, in the creation of a state-owned-enterprise, autonomy is justified to promote entrepreneurship, innovation, adaptability and avoid passive performance. The creation of statutory bodies in the Malaysian governance structure is to help expedite the attainment of the government's missions and goals (Siddiquee 2005). These statutory bodies have greater managerial and strategic autonomy to make appropriate decisions on managerial and operational operations, so that they are aligned to their aims and objectives, which are set by themselves. These organisations, including SIRCs/*baytulmal* institutions, have greater freedom in resource allocation as well as setting the future direction of the organisations subject to public sector legal and administrative frameworks. Nonetheless, there is no absolute autonomy in existence and there is no general level or degree of autonomy that is desirable for certain organisations. Autonomy appears to be a formal power but in practice, an autonomous organisation is still operating within a web of government control, both formal and informal (Islam 1993).

4.2.3 Accountability from the Islamic Perspective

The concept of accountability in Islam or '*taklif*' is premised on the belief that every person is responsible for his or her actions or inactions on the day of judgement (Al-Safi 1992). The two concepts of *khilafah* (vicegerency) and *amanah* (trusteeship) are the basis of accountability in Islam (Abdalati 1998). The concept of *khilafah* (vicegerency) means that mankind is appointed by God as a trustee on this earth, and this requires him to act as a steward in dealing with the universe and its composition, while the concept of *amanah* (trusteeship) holds all individuals as being accountable for all their deeds in the hereafter. Humans are endowed with rational faculties, spiritual aspirations and powers of action to perform their duties as stewards and to execute the trusteeship of all creations. It is humans' obligation to account to God in the hereafter on all matters pertaining to their worldly endeavours (Askary and Clarke 1997). Thus *taklif* is differentiated from its western concept of accountability by insisting each person is responsible for his own deeds (Abdul-Rahman 1998). A fundamental concept in Islam that is directly related to the concept of *khilafah* is the concept of *tawheed*. It is central to the Muslim belief, establishes the thought on the premise that absolute truth (that is to say, a single God, i.e. Allah) is the basis, source, and ultimate destiny for the whole universe (Al-Faruqi 1982).

Further, the teaching of Islam does not promote the division of the sacred and the secular in the activities of life (Al-Buraey 1985). Worldly activities, including but not limited to social and economic interactions such as planning, accounting, reporting and activities involving observing accountability are regarded as acts of worship (Nahar and Yaacob 2011), which will be taken into account on the Day of Judgement. Thus, the concept of accountability in Islam is not restricted to spiritual aspects, but it extends to social, business and any other contractual dealings. Unlike the western concept of accountability, *taklif* encompasses the primary accountability relationship between human beings and God and the secondary accountability relationship established with other individuals and physical subjects (Ibrahim 2000; Ibrahim and Yaya 2005; Ibrahim and Yaakob 2006; Sulaiman et al. 2008). The former is characterised by its transcendental nature and describes the intrinsic relationship with God as the Creator, while the latter concerns a physical relationship, including agency contracts between owners and managers, employers and employees, and superiors and subordinates. These accountability relationships are depicted in Figure 4.2.

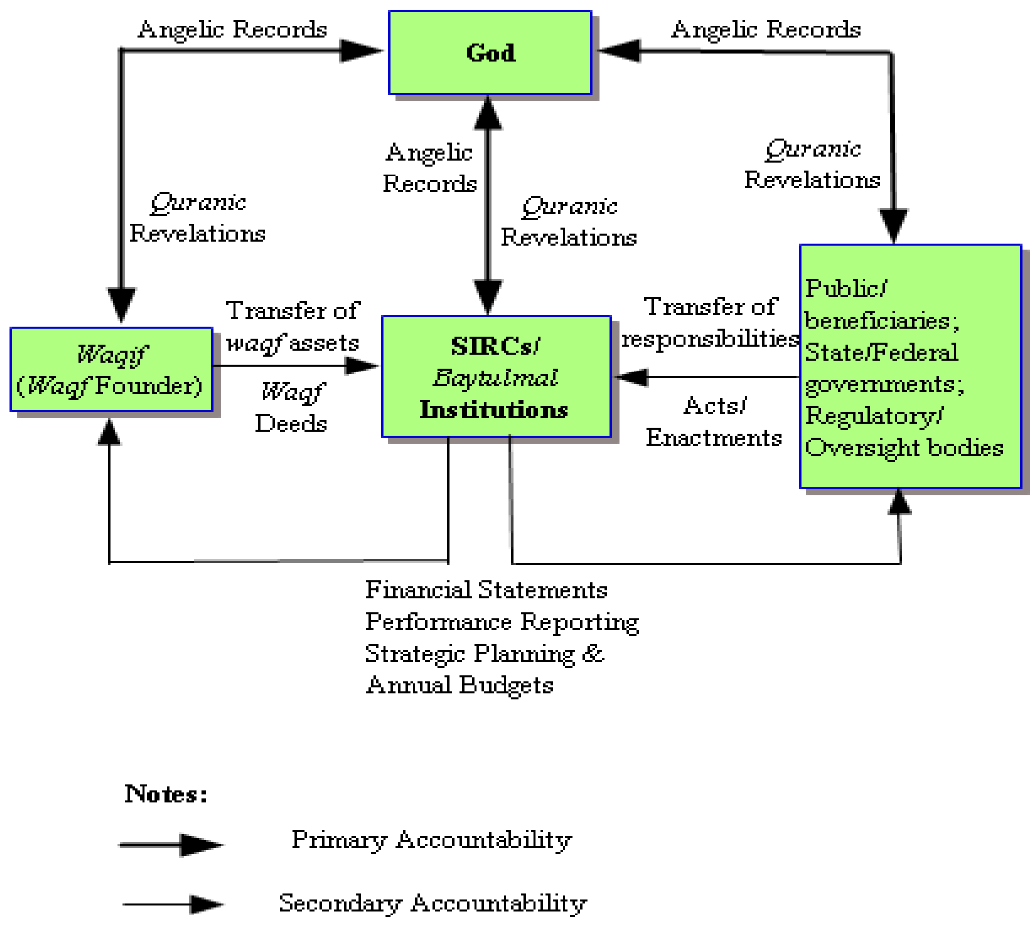
As far as organisations are concerned, the accountability relationships of Islamic and Muslim organisations[51] are extended beyond the normal stakeholders to embrace the transcendental primary accountability relationship with God (Abu-Tapanjeh 2009). As almost all of the staff of SIRCs/*baytulmal* institutions are Muslims and as they are undertaking Islamic activities, these organisations would be appropriately recognised as Muslim organisations. Despite advocating *Shari'ah*[52] principles, these organisations are

[51] Islamic organisations advocate and practise the *Shari'ah* codes of conduct in their operations whilst Muslim organisations comprise Muslims as the majority of the staff, but do not necessarily advocate and implement *Shari'ah* principles in their operations.

[52] *Shari'ah* or Islamic law is the aggregate of divinely-ordained rules, addressed to mankind pertaining to their conduct in the world and salvation in the next. The substantive sources of the law are the Qur'an, the *Sunnah* (tradition of the Prophet), the *ijma'* (consensus of the Muslim jurists) and the *ijtihad* (legal reasoning). It comprises two main divisions: *Ibadat* and *Mu'amalat*. The former comprises rules which

subject to the rules and regulations of the Malaysian public sector organisations as they were established pursuant to Malaysian laws. Thus, the concept of accountability from the Islamic perspective can be exemplified in the management of *waqf* in Malaysia, as illustrated in Figure 4.2.

Figure 4.2: The Accountability Framework of *Waqf* Management from the Islamic Perspective



Each SIRC/*baytulmal* institution is recognised as an agent in the context that this institution is appointed as the trustee for *waqf* resources and thus is held accountable for the management of these resources. Chapter Three discusses the appointment of SIRCs

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regulate relationship of man with his Creator, whereas the latter is concerned with relations between man and his fellow human beings (Kamali, M. H. 2008. *Shari'ah Law: An Introduction*. Oxford: A Oneworld Book.)

as the sole trustees for all *waqf* assets and funds by each respective state government. In the context of *waqf* management in Malaysia, each SIRC/*baytulmal* institution (an accountor) is expected to provide an account for the performance (and/or non-performance) of the stewardship of *waqf* resources, which may have been stipulated in the *waqf* deeds. However, the specificity of performance information supplied to regulatory bodies such as the State Legislative Assembly or the Parliament and the National Audit Department is in writing in the statutes. Financial statements, budget documents, performance reports and strategic planning frameworks can be the prime documents substantiating the accountability relationship between SIRCs/*baytulmal* institutions and stakeholders including *waqf* founders, regulators and oversight bodies.

Alternatively, the primary accountability relationship obliges each SIRC/*baytulmal* institution to safeguard and manage Islamic assets including *waqf* resources in the manner stipulated by the Quranic revelations. This primary accountability to God is mentioned in the *Qur'an*, which holds individuals to be accountable for their worldly deeds in the hereafter. The angelic records maintain the account of all humans' deeds. In the developing countries, however, corruption, abuse of authority, nepotism, favouritism, patronage, theft and deceit are common phenomena resulting from the information asymmetry in the principal-agent relationship (Polidano and Hulme 1999; Sarker 2006). Embracing the concept of *taklif* that is premised on the two inter-related concepts of *khilafah* and *amanah* would oblige parties in the secondary accountability relationship to execute contractual terms in accordance to the *Shari'ah* principles, and at the same time would deter them from corruption, theft, deception or other forms of mismanagement. Nevertheless, the concept of *taklif* does not undermine the importance of contracts, written documents and audits in providing physical accounts of the secondary relationship. In a financial accountability relationship, for instance, the production of financial statements and the conduct of financial audits are vital to assure the execution of the terms of contracts between the relevant parties. It is important, however, that the two accountability relationships be pursued in parallel for them to result in a high standard of conduct. It is the primary accountability to God that prompts the high standard of conduct in social and business transactions (Abu-Tapanjeh 2009; Ihsan and Ibrahim 2011).

4.2.4 The Institutional Accountability Framework of SIRCs/*Baytulmal* Institutions

As discussed in the earlier sections, accountability essentially concerns institutions (and/or individuals), mechanisms and procedures set to work in a world of hard, practical realities. Accountability in the public sector is conditioned by constitutional, legal, professional, statutory and practical requirements and the relationship between parliament, government and the public sector. The main components of the accountability framework of SIRCs/*Baytulmal* institutions include Parliament and its Public Account Committee (PAC), the State Legislative Assembly (SLA), and the National Audit Department (NAD), which are presented in the following paragraphs. Detailed description of the roles and functions of Parliament and the SLA is provided in Chapter Three.

i. <u>Parliament</u>

Parliament is the highest legislative authority in Malaysia and is seen as a powerful mechanism for enforcing public accountability (Siddiquee 2005). In theory, the parliament as the prime political institution of the country holds the government accountable and the government officials, as servants of the public, are accountable to the public through the parliament. Parliament executes its legislative functions via its two houses: the *Dewan Rakyat* (House of Representatives) and the *Dewan Negara* (House of Senate). Its membership consists of by ministers and appointed members, who are accountable to the Houses for the overall activities of their respective ministries. Parliament passes federal laws, makes amendments to existing federal laws, examines the government's policies, approves the central government's expenditures and approves new taxes. Annual budget proposals and audited financial statements of government departments and agencies, which document the uses of public funds, are tabled before the parliament for scrutiny and debates by its members representing the public. SIRCs/*baytulmal* institutions that receive substantial or full financial support from the Federal government would be subject to this accountability requirement.

ii. The State Legislative Assembly

The State Legislative Assembly (SLA) is the highest authority in a state government. Since the administrative and governance systems of state government replicate those of the Federal government, the SLA has similar legislative functions for the state government. It is empowered to enact state laws subject to immense deliberations by the Executive Councillors (EXCO) and royal consent. The chain of accountability in most of the SIRCs/*baytulmal* institutions is executed in the SLA with detail examination of annual budgets and audited financial statements. The state laws stipulate that an annual budget proposals and audited financial statements have to be examined before the SLA. Only audit reports with critical qualifications by NAD will be handed over to the Public Account Committee for further investigation.

iii. The Public Accounts Committee

The Public Accounts Committee (PAC) is another powerful accountability institution in the Malaysian parliamentary system (Siddiquee 2006b). As part of the chain of accountability, the PAC has the responsibility to ensure all government departments and agencies spend public resources in accordance with the approved budget and exercise due economy and efficiency in spending public funds. Its functions, set out in the Standing Orders, are fundamentally 'to examine the public accounts of the Federation and such accounts of public authorities and other bodies administering public funds as may be laid before the House, and the reports of the Auditor General and such other matters as the Committee may think fit or which may be referred to the Committee by the House'. The PAC has been given the power to summon any civil servant to explain any financial irregularities in their agencies, but in practice, the impact of PAC on accountability is limited as most of the accounts investigated are outdated (Siddiquee 2005). As a further challenge in the execution of its role, the PAC depends on the expertise and reports from the National Audit Department (NAD). In practice, PAC complements the job of promoting accountability undertaken by the NAD.

iv. The National Audit Department

The National Audit Department (NAD) is an independent body reporting directly to Parliament. It is at the centre stage of fiscal control and accountability, and is empowered to undertake detailed audits of all government accounts, accounts of ministers and statutory agencies, local authorities and companies whose majority share is owned by the government (Siddiquee 2006b). Paradoxically, the NAD is not authorised to investigate irregularities reported in its reports (Siddiquee 2005). The NAD is headed by the Auditor-General who is empowered to call upon any person or civil servant for explanation and information, and has access to all records, books, vouchers, documents, cash, inventories, security or property subject to his audit. The Auditor-General is expected to detect, during the course of his audit, financial irregularities or non-compliance or deviation from rules and regulations pertaining to financial management. He must reflect those findings in the report submitted to the King, who "shall cause them to be laid" before Parliament. As for reports relating to accounts of a state and its agencies, the Auditor-General shall submit this to the state ruler or the Yang di-Pertua Negeri after which it too will be laid before the respective SLA.

The NAD has introduced at least four initiatives in an attempt to improve its position as an institution that promotes accountability within the public sector. Firstly, in the issuance of financial audit reports, the NAD embraces a more balanced audit report by incorporating explanations and feedback from auditees on issues raised, innovations, improvements and good practices introduced by auditees. This report forms the basis on which the members of the PAC are to rely for making their reviews and assessments. The balanced audit report would set the organisation to promote accountability than merely as a detector of irregularities. Secondly, a management audit report is issued after carrying out the management audit that covers aspects of organisational management, budgetary controls, expenditure/revenue controls, loan/investment controls and assets/inventory controls. This management audit is not a routine exercise, but the NAD has a high expectation in seeking to ensure that government departments and agencies improve their effectiveness and efficiency in general and financial management. Thirdly, the NAD has had move a step forward by offering consultancy services aimed at assisting public sector organisations in establishing sound financial management system in their entities. The services, also known as the Adoption Scheme, are generally concerned with the financial management performance of government agencies. Finally, an Accountability Index (AI) was introduced by the NAD with the primary aim of assessing the compliance of government administrative machineries with the government financial laws, rules and regulations. The rating assessment encompasses organisational management control, budgetary control, receipts control, management of trust funds, trust accounts and deposits, management of assets and inventories, management of investments, management of loans and financial statements. The AI rating system provides four performance rankings ranging from ‘poor’ for those below 49% to a ‘four-star excellent’ rating for those scoring 90-100%.

4.3 The Public Sector Reforms

Public sector reforms attempt to make the management of public sector organisations more accountable for the efficient and effective deployment of public resources (Dunleavy and Hood 1994; Glynn and Murphy 1996; Pollitt and Bouckaert 2000), hence improving the public sector accountability. These reforms have been manifested in various ways and under numerous labels, depending upon the national context, such as ‘New Public Management (NPM)’ (Hood 1991, 1995; Bevir et al. 2003), or ‘managerialism’ (Lawler and Hearn 1995). They generally reflects a ‘marketised’ approach to the provision of public goods and services (Parker and Gould 1999) and tend to adopt private sector management concepts and styles in the pursuit of efficiency and effectiveness of service deliveries, including the quasi-market approach and contracting out of services (Glynn and Murphy 1996; Siddiquee 2006a).

The reforms were initially concentrated in the Anglo-Saxon countries in the 1980s. The diffusion of public sector reforms to other developed countries in the European continent, Australia, New Zealand, and in Latin America and the OECD developing countries was sparked by their central focus on efficiency, effectiveness and quality, structural devolution, disaggregation, competition, management principles and increased use of contracts (Hood 1991; Parker and Gould 1999; Polidano and Hulme

1999; Christensen and Laegreid 2007). Nowhere has the NPM been completely implemented (Sarker 2006) and the implementation varies and has different emphases since the principles and measures were not uniform in trend or have no universality in aims and results (Hood 1995; Bevir et al. 2003). The seven precepts of the NPM that provided broader managerial choices included a shift toward greater disaggregation of public organisations in separately managed units of the public sector, a shift toward greater competition both between public sector organisations and between public sector organisations and the private sector, a move towards greater use within the public sector of management practice which are broadly drawn from the private corporate sector, a move toward greater stress on discipline and parsimony in resource use and on the active search for finding alternative, less costly ways to deliver public services, a move toward more 'hand-on management' involving active roles and visible top managers discretionary power, a move towards more explicit and measurable standards of performance for the public sector and attempts to control public organisations in a more 'homeostatic' style according to preset output measures (Hood 1991, 1995). However, Although modernisation and economic reasons were the drivers of public sector reforms, particularly in lower income countries (Holmes 1992), increasing public expectations of the standard public services; including the size, scope and level of bureaucracy, globalisation, the economic crisis, new management ideas and party political ideas are claimed to have been significant triggers of the global public sector reforms (Hood 1995; Mohamad 2004).

Manning (2001) argued that the contribution of NPM to public sector responsiveness and efficiency was relatively small. At the outset, NPM was criticised for its applicability (Hood 1991) and later for its sustainability (Dunleavy et al. 2006). Hood (1991), however, argued that the universality of the themes of NPM in many different contexts and environment as well as the apolitical feature of the NPM framework explained its versatility in solving many management problems within the public sector. NPM appeared to be widely accepted in Canada, Australia, New Zealand and European countries such as Sweden, France, Denmark, the Netherlands, Norway, Ireland and the UK (Hood 1991, 1995) but it did not seem appropriate to sustain in Japan (Norton 2007). The variations in the objectives, focus and direction of the public sector reforms between countries has resulted in variations in the impact and results of the reforms

(Hood 1995; Bale and Dale 1998; Polidano 1999; Ferlie and Steane 2002; Turner 2002; Bevir et al. 2003; Groot and Budding 2008).

After more than two decades occupying the public sector sphere, public sector reforms based on NPM were argued to have ‘exhausted, or may have had only superficial impact’ (Ferlie and Steane 2002) or to have essentially ‘died in the water’ (Dunleavy et al. 2006), while advocates asserted that NPM was still making an appearance in the public sector transformation (Turner 2002; Pollitt 2003; Siddique 2006a). Despite scepticism in some quarters and debates and controversies surrounding it, the NPM has lately become very widespread and is now seen as a new paradigm (Siddiquee 2006a). However, NPM cannot exactly be asserted to have improved the performance of public sector organisations even in countries such as New Zealand and the UK (Manning 2001).

There has been a change in emphasis, away from structural devolution, disaggregation, and single-purpose organisation and toward a whole-of-government [WG] perspective (Ryan and Walsh 2004; Christensen and Lægreid 2007). Unlike its predecessor, NPM, the WG concept does not represent a coherent set of ideas and mechanisms, and can best be seen as an umbrella term describing a group of responses to the problem of increased fragmentation of the public sector and public services and a wish to increase integration, coordination, and capacity. This new wave of government reforms aimed to make better use of scarce resources, to create synergies by bringing together different stakeholders in a particular policy area, and to offer citizens seamless rather than fragmented access to services (Pollitt 2003). In the UK[53], this public sector transformation known as ‘Joined-up Government (JUG)’ aims to accomplish four fundamental goals. First, it aims to eliminate contradictions and tensions between different policies, which necessitate effectiveness in the policies. Second, JUG sought to make better use of resources, through the elimination of duplication and/or contradiction between different programmes. JUG proposes that sharing resources such as buildings, manpower, information or equipments may lead to a more efficient use of these resources. Third, it intends to improve the flow of good ideas and co-operation between different stakeholders in a particular policy sector, thus producing synergy in the policy

[53] The UK Government promoted ‘Joined-up Government’ (JUG) in which government departments collaborate with other departments to conduct ‘shared’ programmes.

implementation. Finally, its goal is to produce a more integrated set of services from the point of view of the public who use them. It works on the premise of shared goals and an integrated government response to particular issues.

Essentially, it involves all levels of government as well as parties outside of government. The creation of a 'one-stop-shop' that enables the public to engage in many activities at one place may increase the efficiency of resources, as stated in the second goal. Ryan and Walsh (2004) argued that the aforementioned new ways of transforming the public sector had diffused to what were once the hardcore of NPM, namely, New Zealand and Australia. The Australian government has undertaken coordinated WG programmes to tackle increasingly intractable and multi-faceted problems that do not fit into fragmented departmental structures (Ryan and Walsh 2004).

4.3.1 Theoretical Underpinning of Public Sector Reforms

The theoretical foundation for the public sector reforms came from two different streams of ideas: managerialism and new institutional economics (Hood 1991; Manning 2001; Siddiquee 2006a). The concentration of these two doctrines varies in different countries and environments and there may be potential frictions between them in the execution of the NPM ideals. The following paragraphs discuss the features and how they are implicated in the implementation of public sector reforms.

4.3.1.1 Managerialism

Managerialism take the view that professional management expertise is portable, important over technical expertise, requires high discretionary power to achieve results and is indispensable to better organisational performance through the development of appropriate cultures, measurements and adjustment of organisational outputs (Hood 1991; Edwards 1998). Managerialism works best on four features, namely, administrative reform, emulation of corporate strategic planning, 'top-down' management approach; and economic efficiency (Sinclair 1989; Lawler and Hearn 1995; Edwards 1998). The administrative reform involves linking the organisational performance to measurable goals. The emulation of corporate strategic planning or image includes establishing detailed corporate mission statements and goals, which are then translated into progressively smaller and more realisable objectives and action plans. The 'top-down' and centrally-driven corporate planning process essentially necessitate hierarchical power and highly centralised control. A greater managerial autonomy is prevalent through the delegation of ministerial authority, devolution of managerial authority to lower levels of the organisation, and management training. Economic efficiency is the central focus of the policy development processes in managerialism. In sum, managerialism rests on the value of efficiency, which provides guidance to managers in the application of their expertise toward the achievement of organisationally-defined goals (Edwards 1998).

4.3.1.2 The New Institutional Economics

The 'New Institutional Economics (NIE)' was built on the theories of public choice, transaction cost and principal-agent (Hood 1991). It helped '*to generate a set of administrative reform doctrines built on ideas of contestability, user choice, and transparency and close concentration on incentive structure'* (p.5). Governmental decision makers were seen as self-interested subjects, working in an environment with asymmetric information, bounded rationality and opportunism leading to transaction costs and agency costs (Groot and Budding 2008). Its goals are to explain what institutions are, how they arise, what purpose they serve, how they change, and how they should be reformed (Klein 2000). Public choice theory embraces a philosophy of individualism and self-interest that allows the pursuit of private gain through competitive pressures, which lead to improved performance (Boyne et al. 2003), to free citizens from public bureaucracy, and to make civil servants and politicians responsive to the public they are supposed to serve (Barberis 1998). The market, through its discipline of competition, was seen to be capable of providing better services, more efficiently and at a lower cost than the taxpayer-resourced, budget-dependent, anachronistic public sector monopoly providers with their attendant inefficiencies, oversupply and excessive costs (Parker and Gould 1999).

4.3.2 Public Sector Reforms in the Developing Countries

Major reforms undertaken by developing countries have not been entirely related to NPM prescriptions (Polidano 1999; Polidano and Hulme 1999; Sarker 2006). The public sector reforms in these countries have generally focused on two areas: the first being administrative restructuring (Polidano 1999; Polidano and Hulme 1999), and the second being capacity building and curbing corruption. In terms of administrative restructuring, privatisation and downsizing (or retrenchment) are the most widely adopted aspects of NPM principles, while some others experimented the agencification or corporatisation (Polidano and Hulme 1999). This reform, which involved converting public services into autonomous agencies, authorities or corporations, was widely adopted by African countries and recently, Pakistan. However, African countries tended to execute a different version of decentralisation, referred to as political decentralisation, which does not relax central controls over line management but rather involves the devolution of political power to a lower level of government, usually elected local authorities. These privatisation and corporatisation initiatives have had mixed results, perhaps due to the diversity of the objectives in adopting the initiatives (Polidano 1999). Corporatisation can take place as a means of achieving greater efficiency, cost savings or service quality improvements or simply for convenience, free from constraints of public sector red tapes.

Some other developing countries undertook reforms that were not related to NPM by focusing on capacity building and curbing corruption (Polidano 1999; Polidano and Hulme 1999; Sarker 2006). Limited administrative capacity was among the main reason for the non-NPM reforms in these countries. Capacity building entailed expanding the range of functions which an organisation can carry out effectively on a sustained basis. This was given a particular emphasis as most of the developing countries suffered from a very low administrative capacity that make them prone to political intervention: weak financial control and weak institutionalisation of administrative structures. Curbing the corruption has also become a major item in the reform agenda of most of the developing countries. It has normally involved the setting up of anti-corruption commission or ombudsmen empowered to receive and investigate public complaints or allegations on corruptions. Hong Kong, Singapore and Malaysia led other developing countries in combating corruption (Polidano and Hulme 1999). Malaysia established the Anti-Corruption Agency (ACA) in 1967 and Public Complaint Bureau in 1971 (Siddiquee 2006b).

However, Turner (2002) argued that the extent of diffusion of NPM in the Southeast Asian countries could be categorised into three groups of 'enthusiastic diners', 'cautious diners' and 'unfamiliar menu'. Singapore and Malaysia, which made up the first category, had produced public bureaucracies of learning and adaptation from successes elsewhere. The second category consisted of the Philippines, Thailand and Indonesia, which had some decentralisation and privatisation, while Vietnam, Laos and Cambodia were yet to build capacity and systemic processes to initiate and sustain public sector reforms. In other developing countries, international donors such as the International Monetary Fund (IMF), the World Bank, the UNDP, European Union, and the national aid agencies of Britain, Canada and the US were instrumental in their public sector reforms (Polidano and Hulme 1999). Although the direct application of NPM has been limited in the developing countries, it has significantly broadened the menu for managerial choice within the public sector as well as creating meaningful public expectations and public sector disciplines (Manning 2001).

4.3.3 Public Sector Reforms in Malaysia

In Malaysia, modernisation and economic development were the two primary motives for reforming and changing administrative machinery (Holmes 1992; Taib and Mat 1992). Modernisation of Malaysian government institutions was particularly necessary since the role of the government has changed from one of regulatory and system maintenance to planning and development administration. The public sector reforms in Malaysia started in the 1970s but were at their peak in the 1990s with the launching of a string of financial management initiatives and managerial reforms. In the

1970s and 1980s, public sector reforms in Malaysia focused on restructuring of the public sector and improving the accountability of civil service, which include the 'Malaysia Incorporated' policy and the Privatisation policy. Efforts to improve the accountability of civil services have included the introduction of an internal audit system and specific initiative to combat corruption and mismanagement of the public services (Siddiquee and Mohd Zin 2007). In the 1990s, the focus of public sector reforms in Malaysia was more on improving the service deliveries and the accountability of civil services (Mohamad 2004). Financial management reform in Malaysia has introduced the Modified Budgeting System (MBS), Internal Auditing System (IAS), and Micro-Accounting System (MAS) while under label of the managerial reform, the government has launched numerous quality related reforms, such as MS ISO 9000, ICT in government, Clients' Charter, the 'Malaysia Incorporated Policy', as well as a Benchmarking and Innovation award (Mohamad 2004; Siddiquee and Mohd Zin 2007). Apart from the modernisation motive, there were other compelling factors for the Malaysian public sector to undertake the reforms, such as the following:

- <u>Economic Growth</u>: In the first half of the 1980s, Malaysia experienced the combined effects of rising unemployment, falling prices for its primary export goods and declining demands for electronic products, which led to negative growth. It had also suffered from large bureaucracies, high operational budgets and huge deficits (Awang 1995 in (Siddiquee 2006a). To sustain high economic growth, the Malaysian government decided to reduce its role and involvement in the economy and instead foster development through greater reliance on market forces, such as launching the privatisation policy in 1983 (Mohamad 2004). Essentially, the government aimed to downsize the state and to reduce the burden of public expenditure to sustain the economic growth (Siddiquee 2006a).

- <u>Globalisation</u>: The collapse of the communism in Eastern Europe and the USSR, the establishment of a single European market, the formation of regional free-trade blocs and the opening up of Chinese market for foreign investment posed tremendous challenges to countries like Malaysia. These global economic and political uncertainties led to the launching of the Second Outline Perspective Plan (OPP2) in 1991, which is also known as the National Economic Development (NDP). The socio-economic targets and strategies are meant to complement another important development plan in Malaysia, the Vision 2020. This is a 30-year strategic plan for Malaysia to achieve the goal of fully-developed nation status. These developmental policies also emphasise public-private partnership as a means to promote investment and hasten the process of economic growth. The increasing globalisation of the economy that inevitably opens countries up to fierce competition compels public services to re-examine and rationalise their responsibilities, and to be equipped with the necessary skills and values to cope with the challenges of the changing local and global contexts.

(Siddiquee 2006a)

The overall public sector reforms in Malaysia, generally shared similar features with public sector reforms worldwide, i.e. adopting a private sector management style, delegation of autonomy to government organisations, greater participation of middle level managers in financial management, performance contracts of government organisation to central agencies and output-based accountability (Mohamad 2004). Public sector reforms in Malaysia can best be divided into two phases of pre-2000 and post 2000. The pre-2000 period covered the first two decades of vigorous public sector reforms in Malaysia, covering 1981 to 2000 (Ferlie and Steane 2002) while in the post-2000 period, the focus has been more on the evaluation and improvement of the earlier reforms. Detailed descriptions of the reform initiatives are presented in following sections.

4.3.3.1 Public Sector Reforms in Malaysia (1981-2000)

i. Public Sector Restructuring

Economic challenge and global uncertainties led to a number of important steps taken by the Malaysian Government to sustain its economic growth. In the 1980s, the focus of reforms measures was on restructuring the public management system and introducing dynamism into the traditional bureaucracy (Samaratunge et al. 2008). As mentioned in the earlier section, the Malaysian Government endured high operational budgets and substantial deficits, increasing unemployment, declining prices for primary products exported and a fall in demand for its electronic products. Hence, the government chose privatisation as a major strategy for reducing its involvement in the economy and society. The government launched the Malaysia Incorporated policy in February 1983 aimed to establish a close relationship between the public and private sectors to achieve sustainable economic growth. The 'privatisation' policy that involved the transfer of government ownership and management to the private sector was launched in mid-1983. The policy was influenced by the dynamism of the private sector and primarily aimed at reducing the government's financial burden, improving the efficiency and effectiveness of public enterprises' service delivery, encouraging economic growth, and improving resource allocation and public service delivery through market mechanisms (Mohamad 2004). The state of the economy necessitated a reduction in its role and involvement in the economy and the fostering of development through greater reliance on market forces (Siddiquee 2006a).

In addition, downsizing the civil service was part of the Malaysian government's plan to gradually reduce public expenditure on emoluments and related expenses (Siddique 2006a). Among the measures imposed on the civil service were curbing the creation of new posts, abolition of vacant posts in non-critical areas and reviewing positions in statutory bodies. It was claimed that the privatisation policy appeared to have been effective in relieving the financial and administrative burden of the government.

ii. Financial Management Reforms

The financial management system inherited at Independence stressed control, conformity with rules, and legality of expenditure (Dean 1986). The Malaysian public sector has taken initiatives to strengthen the management accounting practices, which include the introduction of cost accounting system known as the Micro Accounting System (MAS) and the performance–based budgeting system, referred to as the Modified Budgeting System (MBS) (Salleh 2006). MAS was introduced by MAMPU in 1987 and was revamped in 1992 to enable government agencies identified the cost of their outputs and thus preparing budgets by compiling the costs of planned level of outputs (Xavier 2009). Similarly, MBS was introduced in 1989 specifically to improve the financial management system (Dean 1986; Xavier 1996a, 1996b, 1998). It promoted the flexibility in responsibilities and authorities via the concept of 'let's managers manage', introduced a result-oriented budgeting system and thus cost effective financial management (Salleh 2007). One of the most significant changes introduced in MBS in comparison to the earlier budgeting system of Programme and Performance Budgeting System was the focus on the measurement of the expected output or impact of a particular programme/activity. Essentially, the implementation of MAS was regarded as a complement to the MBS and thus ensuring greater public accountability of the public sector in Malaysia. The IAS that was introduced in 1979, and was re-launched in 1993 aimed to address the issue of lack of accountability among civil servants. Internal auditors are expected to conduct independent inspection and observations of public sector activities and operations on a regular basis and to report the findings and recommendations to the top management of the organisations concerned.

iii. Reengineering Public Services

With the advent of globalisation, it became necessary for the public sector to review and redesign some of its procedural matters in order to achieve considerable improvements in the service deliveries. Public agencies were required to reduce red-tape, expedite the delivery of services and to take appropriate actions to ease regulations and procedures for the benefit of their clients (Siddiquee 2006a). This was done by abolishing some of the prevailing systems and streamlining correspondence procedures. In addition, the government has put significant effort into providing better physical facilities and office layout, improved equipment, fast, dependable and accurate services as well as knowledgeable and courteous staff. The government has also introduced mobile counters for banking-related activities and one-stop clearance centres for expediting business approval in attempts to accelerate business expansion and attract foreign investment.

iv. Quality/Productivity Improvement and Public Accountability

The Malaysian government has made concerted efforts to improve the delivery of public services as well as to institutionalise quality culture in the public services. Total Quality Management (TQM) can be regarded as the impetus for the quality and productivity improvement drive. It has led to the introduction of Quality Control Circles (QCC), the Quality Assurance Unit (QAU), strategic planning and the Clients' Charter, which are notable efforts to improve the quality and productivity of the public services. The government also adopted the internationally recognised ISO 9000 series in 1996, which provides a comprehensive system of checks, control and inspection at every stage of the work process so as to ensure consistency in the quality of goods and services produced (Siddiquee 2006a). Earlier in 1994, the Clients' Charter was made mandatory for all government agencies at all levels, statutory bodies, and local authorities. In case of an agency failing to comply with the quality standards stated in its Charter, the public can lodge a complaint for non-compliance. The Charter has helped to reduce uncertainties over the delivery services and facilitate comparison between agencies offering similar services. These quality and productivity measures are intended to restore public confidence in the efficiency of the public services.

v. Personnel Management

One of the most significant changes in the public services since Independence has been the introduction of the New Remuneration System (NRS) in 1991[54] (Siddique 2006a). The NRS introduced performance measurement of personnel as a pre-requisite for salary increments and promotion purposes in an attempt to make public sector pay and promotions more objectives and reliable. The NRS imposed the Annual Work Targets (AWTs) as indicators for the performance measurement of personnel at all levels. As such, the performance of each staff member was measured against his/her AWTs at the end of the year and was supposed to be reflected directly in remuneration

[54] The *Sistem Saraan Baru* (New Remuneration Scheme [NRS]) was introduced by the Malaysia Public Services Department in 1991 via the Services Circular No. 9 1991 entitled 'The Implementation of the New Remuneration Scheme based on the Special Cabinet Committee on the Public Sector Emoluments'. The scheme was based on the report for the *Jawatankuasa Khas Kabinet Mengenai Gaji Sektor Awam* 1991(Special Cabinet Committee on the Civil Services Pay 1991).

and promotion. The AWTs can be expressed in terms of the quantity and quality of the assigned work and were expected to be associated with the magnitude of resource consumption in accomplishing the tasks. For instance, the number of payment vouchers processed in a year can be one of the AWTs for personnel in the Finance Division. Further, the AWTs were included as part of the latest initiative of fixing KPIs for the top senior executives in the Malaysian government (Xavier 2009). Although the remuneration system went through several improvements to reinforce the measurement processes, the main element of performance measurement within the AWTs was retained.

More importantly, NRS attempted to establish linkages between performance and rewards by introducing a Matrix Salary System (MSS), which replaced the linear salary system in the public services. A more systematic, transparent and reliable measurement of each employee and less subjective performance evaluation are inbuilt in the scheme. However, the new appraisal system under NRS created discontent among some civil servants and hence the Malaysian Remuneration System (MRS) was introduced in November 2002. Civil servants who are dissatisfied with the NRS may opt for the MRS.

4.3.3.2 Public Sector Reforms in Malaysia (Post-2000)

After two decades (1981-2000) of intensive efforts improving the efficiency, effectiveness, quality, productivity and transparency of public services, the Malaysian government is justified in re-evaluating and reflecting on the performance of its reform initiatives. Although the reforms did not entirely adopt NPM principles, the changes that were market-driven and customer-oriented have produced positive impacts in ensuring trouble-free and timely services to customers (Siddiquee 2006a). However, the progress in areas of performance measurements such as the use of performance standards, performance-related pay and cost-saving initiatives have been limited, despite considerable emphasis on reforming personnel and financial management.

For the public services to remain relevant and competitive in a rapidly changing local and global environment, the government continues its measures to improve the overall performance of the public services, paying particular attention to certain areas. The government appears to focus on new technologies and innovations, such as the application of Information Technology (IT) in the operations of government, seeking to strengthen its performance of the government machinery: more efficient and responsive delivery of public services. The period post-2000 has seen the diffusion of IT applications and the introduction of E-Government, the reinforcement of performance measurement structure via the National Key Result Areas (NKRA), and improvements in the quality and productivity of government agencies' services. The government has also launched the Accountability Index (AI), seeking to restore public confidence in the public financial management. These reform strategies are presented below.

i. <u>Information Technology and E-Government</u>

The advent of Information Technology (IT) has had an enormous impact on the transformation of the public services and widened the expectations of more efficient and responsive delivery of public services. The Malaysian government appears to be considerably ahead of other developing countries in terms of emphasising the significance of IT and undertaking programmes for IT application in the administration (Siddiquee 2006a). One of the most significant impacts of the diffusion of IT in the public services is the implementation of E-government within the Malaysian public services. It is claimed to dramatically enhance the performance and quality of the service deliveries in the public sector. IT seeks to reinvent and redefine the working culture and relationship between the government and citizens, the business community and even among themselves. For instance, *E-Perolehan* (E-Procurement) is the official secure online marketplace for suppliers and government agencies and has had a remarkable impact on the procurement system of the public sector.

ii. <u>Financial Management</u>

Public sector reforms that emphasis on efficiency and performance have encouraged greater recourse to a broader scope of audits, including performance audits or value-for-money audits (Parker and Gould 1999). A high incidence of non-compliance of federal, state and local governments to relevant rules and regulations reported in audit reports has raised a significant concern for the government. Administrative weaknesses, particularly in documentation and registration, as well as improper monitoring and supervision by top management trigger losses and embezzlement of public funds. The Accountability Index (AI), which was introduced in 2007, is an objective, quantitative assessment of the financial management of federal and state government departments, statutory bodies, local authorities and State Islamic Religious Council (NAD 2008). The AI ratings reflect the compliance of the management with the government financial laws, rules and regulations. The assessment by AI encompasses organisational management control, budgetary control, receipts control, management of trust funds, trust accounts and trust fund deposit account management, assets and inventory management, management of investments, and the management of loans and financial statements. More importantly, the introduction of AI is in line with the emphasis on Total Quality Management and Key Performance Indicators (KPIs)[55]. by the government. In 2005, the Malaysian government introduced a performance measurement initiative for the public sector based on KPIs were introduced primarily to measure the efficiency and effectiveness of core activities in the public sector organisations.

It is claimed that the impact of the reforms so far have been modest (Mohamad 2004; Siddiquee 2006a). Malaysian public sector organisations, however, have made considerable strides in areas such as organisational restructuring, privatisation and corporatisation of public entities, quality management, customer focus and the application of IT operations.

4.4 Accountability and the Public Sector Reform

As mentioned in the earlier sections, the NPM model of public sector reforms involves two fundamental approaches of reducing or removing differences between the

[55] Performance measurement using the KPIs was introduced by the Civil Service Advancement Circular No. 2 Year 2005 entitled ‘Guidelines for the Development of Key Performance Indicators (KPI) and the Implementation of Performance Measurement in Government Agencies’.

public and the private sector and shifting the emphasis from process accountability towards a greater element of accountability in results (Hood 1995). Essentially, public sector reforms characterised by managerialism and marketised approaches entailed a redefinition of the scope and role of the public sector and its management apparatus (Sarker 2006; Erkkila 2007). Literature on the public sector reforms argued that the insertion of market type mechanisms in the public sectors has blurred the traditional differences between the public and private sector and has thus brought a profound change on public sector accountability (Holmes 1992; Glynn and Murphy 1996; Parker and Gould 1999; Haque 2000; Ryan and Walsh 2004; Sarker 2006).

Public sector reforms have transformed the role of public sector organisations from being that of administrators and custodians of public resources to being managers empowered with greater delegated authority (Parker and Gould 1999) and at the same time delivering public services (Glynn and Murphy 1996). It has moved from a concept of accountability to the public to financial outcomes, which are to be exercised within the hierarchy of public sector organisations themselves. The transformed public sector has been characterised by the accountability for performance that focuses more on the inspection of tangible inputs and outputs, preferably measured in quantitative and particularly, financial terms (Glynn and Murphy 1996; Parker and Gould 1999; Romzek 2000; Carnegie and West 2005; Erkkila 2007), competition, profit, and value-for money (Haque 2000). Thus there was an overemphasis on procedural, economic criteria (e.g. efficiency and productivity) than substantive public concerns of equality and representation. The reforms shift the focus of accountability from a heavy reliance on rules and process orientations toward increased discretion, flexibility and entrepreneurial behaviours (Gray and Jenkins 1993). Managerial accountability, for instance, aims to incorporate commentary on and evaluation of the economy, efficiency and effectiveness of resource deployment in the pursuit of programme objectives. Nevertheless, appropriate and logical quantitative measures need to be developed to assess the demonstration of the accountability as well as to form the substance of accountability reports that may subject to independent appraisal or audit (Glynn and Murphy 1996).

4.5 Accounting and Accountability

Accounting is an information system and not a system of management. It should be judged on its contribution to management effectiveness, which in turn should be hudged on its contribution to the quality and effectiveness of public services (Gray and Jenkins 1993). Accounting was to be a key element in the new accountability under the public sector reforms (Hood 1995) and communicating accounting information has the primary aim of enabling appropriate evaluation of accountability (Carnegie and West 2005). In the context of accounting, accountability is defined as the responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing, investments, and compliance of the reporting entity.

With regard to public sector reporting, providing useful information which will assist users in making economic decisions, allowing for the assessment of the entity's financial position, and showing the result of the operations are among the basic objectives of reporting (Miah 1991; Rutherford 1992). The importance of the concept of accountability in public sector accounting has been acknowledged by the Government Accounting Standard Board (GASB 1987) in the Objective of Financial Reporting as follows:

> *'Accountability is the cornerstone of all financial reporting in government ...Governmental accountability is based on the belief that the citizenry has 'a right to know', a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society.'*

If accountability/stewardship is the primary goal of a financial reporting, one should expect accounting reports to be based on very objective and unbiased data. The introduction of the accrual basis of accounting in the public sector is essentially to enhance internal and external transparency and thus improve the accountability of the organisations. The accrual accounting that recognises transactions as events take place is important in terms of the recognition of assets, liabilities, net assets/equity, revenue and expenses (Groot and Budding 2008). With the full costs of activities, it helps to improve decision making processes in the public sector organisations and is thus expected to improve their performance as well.

In complex environments with many dimensions of accountability (e.g. legal, political, financial, etc.), such as in the public sector, reporting would necessitate eclectic reports that include both financial data and a variety of other forms of information (Patton 1992). In other words, accountability-based reports which include explanation will be lengthy documents. On the other hand, the key issue in the charity-related reporting is the readability and understandability of the information being reported (Palmer and Vinten 1998). Basically, readers of these organisations' accounts seek information on the utilisation of resources and the movement of charity funds during the year. However, Patton (1992) argued that the extent of information reported in the financial statements is dependent upon the nature of relationship between the accountor and accountee. Governmental reports appear to be valuable to those without special access to information about the entity but who have a legitimate economic, political, or social interest in the activity of the public organisations. Users of accounting information as categorised by Miah (1991) include the public or citizens, beneficiaries of services, providers of resources, oversight bodies, analysts and members of the media.

4.6 Accountability and Performance

Performance measurement in the public sector can be used for myriad of reasons including evaluation, control, budgeting, motivation, promotion, celebration, learning and improvement (Behn 2003). Hence, performance measurement must be constructed to reflect the entity's achievement towards its goals and objectives (Ijiri 1974). The definition of performance, however, has varying emphasis on inputs, outputs or outcomes. If an organisation is viewed as the usual production model consisting of three stages (inputs, outputs and results), performance can be viewed in terms of effectiveness and efficiency (Hyndman and Anderson 1998). Inputs generally refer to items such as spending, staffing and equipment. Such inputs involve in the creation of outputs, which are the units actually produced, whilst outcomes are the consequences of effects of service provisions (Boyne and Law 1991). Efficiency simply refers to the ratio of outputs to inputs, or the amount of input per unit of output while effectiveness is concerned with the relationship between the outputs/results of an organisation and its objectives. Efficiency can be further categorised into two, namely, technical efficiency and allocative efficiency (Boyne et al. 2003). Technical efficiency is the ratio of service 'inputs' (spending) to outputs (goods or services actually produced), i.e. unit costs, while allocative efficiency is the match between such outputs and the preference of the public (e.g., whether the houses built meet the needs the needs of families who lack suitable accommodation).

In the public sector reforms, the distinctions between inputs, process, outputs, and outcomes orientations for performance evaluation become even very important (Romzek 2000). The reform trend has been to shift from a heavy reliance on rules and process orientations towards increased discretion, flexibility, and entrepreneurial behaviours. In accountability terms, such changes reflect a shift in emphasis away from hierarchical and legal standards of accountability towards professional and political accountability relationships. Input orientation focuses on resources available to carry out a programme or an activity. The budget level or number of skilled employees would be the most common resources required for programmes and activities. Process orientation emphasises proper paper flow and consultation with relevant, appropriate actors and compliance with mandate and regulations. On the other hand, output orientation focuses on the quality and quantity of services purchased or product made (timeliness or customer service satisfaction levels) and the outcome orientation would reflect the quantity and quality of the results achieved by the outputs in satisfying the client, i.e. the taxpayer. Thus, the dimension of efficiency would also have to consider quality, cost, quantity of output, and quality of output. However, there are difficulties involved in measuring performance in the public sector: the lack of a direct link between intentions and outcomes; the difficulty of identifying explicit and quantifiable goals; the ability to manipulate information; and a concentration on quantification and a lack of regard for qualitative factors (Hyndman and Anderson 1998).

4.7 Summary

This chapter has offered an overview of the theoretical underpinning for the study. The accountability framework that is premised on the principal-agent relationship explains the *waqf* trusteeship in Malaysia. The *waqf* management in Malaysia, which is under the auspices of the public sector, was exposed to multi-dimensional accountability relationships. On the other hand, the concept of the Islamic concept of accountability, *taklif,* offers a holistic approach to understanding the accountability relationships in the *waqf* management in Malaysia. Embracing its primary accountability to God and secondary accountability to contractual parties and supervisory agencies is likely to prompt a high standard of conduct in the *waqf* management, thus minimising the costs of asymmetric information resulting from the principal-agent relationship. The chapter also highlighted the institutional accountability framework for the *waqf* management in Malaysia.

The chapter also discussed the public sector reforms under the themes of New Public Management (NPM), which was built on 'managerialism' and the New Institutional Economies (NIE). Public sector reforms in Malaysia were elaborated on expansively in order to provide an understanding of the sector's effort to improve the efficiency of its services and thus the accountability of its organisations to the public. A reflection of public sector reforms based on NPM was presented. Despite numerous criticisms of its universal applicability, the reforms based on NPM has spread to a relatively large number of developed countries including New Zealand, Australia, the UK, several European countries and other OECD developing countries. In developing countries, however, it was shown that the public sector reforms were not entirely based on NPM. They focused on developing their administrative capacity and combating corruptions. The chapter also highlighted the impact of public sector reforms on public sector accountability. This chapter forms one of the fundamental inputs to the development of the research methodology in the following chapter, Chapter Five.

CHAPTER FIVE: RESEARCH METHODOLOGY

5.1 Introduction

This chapter explains the purpose of the study, describes the study population, and details the research design that places the research within a recognised epistemological and ontological framework. The research advocated the quantitative method that is built on two stages of data collection. The first stage involved the use of the questionnaire survey on senior and operational officers of all SIRCs and two *baytulmal* institutions, each in Sabah and Sarawak, to obtain information on the accounting, accountability and effectiveness of *waqf* management in these organisations by examining the current practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting. The questionnaire design and development, the technique adopted to enhance the quality of data, the method to maximise the response rate, and the statistical techniques used to analyse the questionnaire data are described in the sections. The second stage involved a series of semi-structured interviews with selected officers of SIRCs/*baytulmal* institutions, and senior officials of JAWHAR, MWF and the NAD. A description of interview data analysis is also provided. The two-stage design of data collection was intended to enhance the validity of the overall analysis and build up a rounded and credible overall picture of the topic studied.

5.2 An Overview of the Study

The study of *waqf* has always been part of the broad field of Islamic studies but has only attracted rather marginal interest of researchers (Hoexter 1998b). In the last three decades, however, *waqf* has emerged to gain gradual interest from researchers not only within the Muslim worlds but also in other parts of the world (Gaudiosi 1987). Studies and interest in *waqf* evolved from significant concentration on legal aspects and later encompassed its broader implications and association with economy, education, social systems and the state. There has been significant interest from studies looking into the association of *waqf* with the economic development of the Ottoman Empire (Hoexter 1997; Hoexter 1998a; Cizacka 1998a, 1998b, 2000b), which also revealed the introduction of controversial cash *waqf* during the period (Mandaville 1979; Cizacka 2004; Toraman et al. 2007). The contribution of *waqf* in the dissemination of knowledge has also been fairly well researched (Gaudiosi 1987; Shatzmiller 2001; Wafa 2010; Man and Abdulwaheed 2011; Setia 2011). For instance, Gaudiosi (1987) examined the influence of *waqf* on the establishment of the oldest college of Oxford University, Merton College. She asserted that the structure of Merton College as embodied in the statutes of 1264 explicitly fulfilled a number of the conditions necessary for the establishment of *waqf*, while not violating any of the principles underlying Islamic institutions. At the same time, the association of *waqf* with the social system and the state has also attracted more attention from researchers (Crecelius 1971; Hainsworth 1979; Layish 1983; Powers 1993; Hoexter 1997; Hoexter 1998a; Sabra 1998; Dale and Payind 1999; Bagaeen 2006; Hamouche 2007). This emerging interest in *waqf* has also led to various publications (Shaham 1991; Baer 1997; Shaham 2000; Kuran 2001; Raissouni 2001; Bremer 2004; Kuran 2004; Chen 2005; Sabran 2005; Sait and Lim 2005; White 2006b, a; Hasan 2007; Brown 2008; Deguilhem 2008; Kuran undated) and discourses deliberating *waqf* experiences and issues[56]. In other instances, case studies have been conducted in various parts of the Muslim world to discover the diverse experiences of *waqf* (Ahmed and Khan 1997; Aljunied and Hussin 2005; White 2006b; Brown 2008; Yahya 2008; Affandi and Nufus 2010; Karim 2010).

A similar pattern of researches in *waqf* has also surfaced in Malaysia. *Waqf* and its related issues have attracted considerable attention from academics, practitioners and relevant authorities. The emergence of Islamic economics in the region provided additional impetus to the growing interest in *waqf*. It is seen as a complementary element of the Islamic financial system, and is alleged to have made significant contributions to the creation of wealth (Sadeq 2002b; Hashim 2007; Rani and Aziz 2010). Studies of

[56] The Islamic Research and Training Institute of the Islamic Development Bank held the Singapore International *Waqf* and Zakat Conference 2007 and the International *Waqf* Conference 2007 in Cape Town, South Africa. The Harvard Law School conducted a seminar entitled the Law of *Waqf* II in 2008. Other international conferences include the Dubai International Conference on Endowments' Investment 2008 in Dubai, UAE, the International Conference on *Waqf* Laws and Management 2009 in IIUM, Malaysia, the Seventh International Conference - The Tawhidi Epistemology: Zakat and *Waqf* Economy 2010 in UKM, Malaysia and the Second International Symposium of Awqaf – *Waqf* and Education: Innovative Models in Dubai, UAE.

waqf in Malaysia can be grouped into four inter-related areas of legal or Islamic jurisprudence, its association with education, management aspects, and some emerging issues of *waqf*. Mahamood (2006) came up with a detailed study investigating the existing legal framework and challenges in the management of *waqf* in Malaysia. She examined the potential of *istibdal* transactions in the state of the Federal Territory (Mahamood 2000). In relation to education, researchers were more inclined to explore the contribution of *waqf* to the Malaysian education system (Latiff et al. 2006; Wafa 2010; Man and Abdulwaheed 2011).

Furthermore, a number of studies and reports investigated the inherent challenges faced by *waqf* administrators or trustees (i.e. the State Islamic Religious Council [SIRC]) in developing *waqf* assets and mobilising *waqf* funds in Malaysia (Mahamood 2006; Ahmad 2007; Mahamood 2007b; Manat 2007; Sulaiman 2008; Hassan and Shahid 2010; Rani and Aziz 2010; Mohammad and Mar-Iman Undated). They concurred that the incoherent system in the administrative aspects of Islam and Islamic laws, financial constraints and laxity in the supply and expertise of human resources were the major obstacles inherent in the management of *waqf* in Malaysia. Despite its obscurity, some researchers noted the viability of *waqf* as a source of micro-finance (Hashim 2007; Ahmad 2009) and its contribution to the economic progress of the Muslim community in Malaysia (Mahamood 2006; Mohammad 2006; Mahamood 2007a; Hasan and Abdullah 2008; Mohammad 2008; Muhamat et al. 2011). Based on a case study in Syarikat Takaful Malaysia Berhad, Hashim (2007) asserted that the *takaful* (Islamic insurance) system was a viable means of collecting *waqf* resources from a wider group of people and thus could increase the contribution of *waqf*. Mahamood (2007a) proposed the establishment of a *waqf* fund at national level in an attempt to alleviate the financial constraints experienced by the majority of *waqf* administrators. At the same time, other researchers suggested innovative models in which *waqf* could participate in generating productive revenues for its beneficiaries (Mohammad 2006; Jalil and Ramli 2010; Muhamat et al. 2011).

As mentioned in Chapter Four, the management of *waqf* in Malaysia went through a major upheaval in the 1950s. Through a series of state enactments, *waqf* management was handed over to the SIRC of each state to redress the malmanagement practices of private trustees (Cizacka 2000b; Mahamood 2006). Since then, the management of *waqf* in Malaysia has been under the auspices of public sector. Thus, as part of the government administrative structure, SIRCs were expected to assume relevant managerial and financial reform initiatives promoted by the Malaysian government since the 1990s along with other government agencies. Nonetheless, an investigation by Abdul-Rahman and Goddard (1998; 2003) in two SIRCs revealed that budgets were perceived merely as 'routine' activities and the accounting systems in place were relatively unsophisticated. Thereafter, studies and discourses tended to focus on the transparency and accountability aspects of *waqf* management, primarily on the reporting of the financial information of *waqf* (Ibrahim and Yaakob 2006; Mohamed et al. 2006; Mohd-Zain and Abdul-Rahman 2006; Daud et al. 2011). The absence of appropriate reporting and disclosure framework for *waqf* was reported as the prime factor for deficiencies in the disclosures of *waqf* information. The emerging interest in *waqf* from various parties and the commitment of the Malaysian government to support the development of *waqf* financially necessitate further investigation into the effectiveness and accountability of the existing *waqf* management in SIRCs. Case studies were employed by Osman (2010) and Nahar and Yaakub (2011) to examine non-governmental organisations' perspectives of accountability of *waqf* management in Malaysia and accountability of SIRCs in terms of financial reporting practices respectively. The study on accounting, accountability and effectiveness of *waqf* management in Malaysia is relatively limited. Thus this study attempts to fill this apparent gap by examining the current practices of principal management activities; namely, strategic planning, budgeting and budgetary control, performance measurement and financial reporting of all fourteen SIRCs in Malaysia. It is expected that this study will contribute significantly toward the knowledge and understanding of *waqf* management in Malaysia as well as making a practical contribution by suggesting ways in which the *waqf* management could be improved.

5.3 Purpose of the Study

The main purpose of the study is to empirically investigate the accounting, accountability, and effectiveness of *waqf* management under the trusteeship of SIRCs, by examining the current practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting in all SIRCs and two *baytulmal* institutions, each in Sabah and Sarawak. The study attempts to answer the following research questions:

1. The extent of autonomy afforded to the management of SIRCs/*baytulmal* institutions in relation to the operations and future direction of the organisations;
2. The extent of accountability of SIRCs/*baytulmal* institutions towards the institutional authorities of the accountability framework (i.e. the Parliament/State Legislative authorities and its Public Account Committee (PAC), the Federal and State Treasury and the National Audit Department (NAD);
3. The current practice of strategic planning in SIRCs/*baytulmal* institutions;
4. The perceptions of senior managers/executives towards the strategic planning in SIRCs/*baytulmal* institutions;
5. The current practice of budgeting and budgetary control practice in SIRCs/*baytulmal* institutions;
6. The perceptions of senior managers/executives towards the budgeting and control in SIRCs/*baytulmal* institutions;
7. The current practice of performance measurement in SIRCs/*baytulmal* institutions;
8. The current practice of financial reporting in SIRCs/*baytulmal* institutions;
9. The extent of the use of external consultants in SIRCs/*baytulmal* institutions;
10. The current practice of strategic planning, budgeting, performance measurement and financial reporting of *waqf* management in SIRCs/*baytulmal* institutions; and
11. The extent of the influence of the Federal religious agencies, namely, Department of *Awqaf*, *Zakah* and *Hajj* (JAWHAR), Department of Islamic Development Malaysia (JAKIM) and Malaysia *Waqf* Foundation (MWF) on *waqf* management in SIRCs/*baytulmal* institutions.

5.4 Study Population

As discussed earlier in Chapter Two, the Malaysian government machinery consists of the federal government and fourteen state governments including the Federal Territories of Kuala Lumpur, Labuan and Putrajaya (i.e. the Federal Territories). The Malaysian Federal Constitution, exception in the Federal Territories, empowered state governments the responsibility for the administrative affairs of Islam and Islamic Law as well as Malay customs. A State Islamic Religious Council (SIRC) was constituted in each state to assist the Ruler (or Sultan) in performing his duties as the head of Islam in the respective state. This position entails SIRCs as the exclusive policy makers on matters relating to Islam and the Malay customs. Accordingly, *waqf* assets which are listed under Schedule Nine, List II, in the State List, fell under the jurisdiction of respective state governments and were appropriated in respective state enactments (Muhamat et al. 2011).

In the period of 1950-1978, a series of state enactments were promulgated in each state, unless stated otherwise, appointing SIRCs as the sole trustees of *waqf*. As a result of this appointment, SIRCs were responsible for the safeguard, administration and development of *waqf* assets in their respective states. In Sarawak, the entire management of *baytulmal,* including *waqf,* was delegated to a semi-autonomous entity, *Tabung Baitulmal Sarawak* (Sarawak Baitulmal Fund) in 1998. The *Majlis Islam Sarawak* (Sarawak SIRC) only exists as quorum of meetings and a policy maker of the administrative affairs of Islam and Malay customs. It does not have an implicit and structured organisation. In Sabah, the Baitulmal Corporation Enactment 1998 (Sabah No. 11 of 1998) incorporated the *Perbadanan Baitulmal Negeri Sabah* (Sabah Baitulmal Corporation) and appointed it to administer and control the Council's *Kumpulan Wang Baitulmal* (Baitulmal Fund) in 2005. The Corporation is a semi-autonomous entity, primarily responsible for the development of the *baytulmal* and *waqf* assets vested in the Council. However, the acceptance of *waqf* assets and the vesting of these assets in the name of *Majlis Ugama Islam Sabah (MUIS)* (Sabah SIRC) and the reporting of *waqf* information are still under the jurisdiction of MUIS. In other words, the trusteeship of *waqf* assets and funds in Sarawak and Sabah *waqf* management remained with the respective SIRCs.

As the study attempts to investigate the accounting, accountability and effectiveness of *waqf* management in Malaysia under the trusteeship of SIRCs, the study population comprised the thirteen SIRCs and the two *baytulmal* institutions (Sarawak Baitulmal Fund and Sabah Baitulmal Corporation), which thereafter referred as SIRCs/*baytulmal* institutions. The study was not undertaken in SIRC P since it does not explicitly exist as an explicit and structured organisation. The list of SIRCs/*baytulmal* institutions and their corresponding codes is presented in Table 5.4.1. Since the study population is small, no sampling was carried out and accordingly, the study was undertaken on the entire population. For the purpose of preserving the anonymity of the organisations involved in the study, each of these organisations was assigned with a unique code, which was used throughout the analyses.

5.5 Research Paradigm

The ontological position of a research refers to the worldview of a researcher with regards to the form and nature of reality to be researched or, in short, 'what is the nature of the reality?' Morgan & Smircich (1980) cited in Tomkins & Groves (1983) outlined six categories of basic ontological assumptions related to the nature of the social world: concrete structure, concrete process, contextual field of formation, symbolic discourse, social construction and projection of human imagination. An epistemological position of a research, on the other hand, reveals the nature of relationship between a researcher and the reality to be researched, which is contingent upon the ontological position. It is a question of what we regard as knowledge or evidence of phenomena in the social world. In accounting researches, studies on the behaviour influenced by accounting reports or the behaviour of accountants themselves require researchers to have intimate knowledge of the relevant human behaviour 'in its natural' setting. This type of study is concerned with a 'concrete process' that advocates knowledge by understanding the processes of organismic change. A researcher may use quantitative measures or standard qualitative classifications to study the impact of changes in the real world environment, how they are used and in searching for generalisable patterns of change (Tomkins & Groves, 1983).

Table 5.4.1: List of SIRCs/*Baytulmal* Institutions and the Corresponding Codes			
No.	**State**	**SIRC**	**Codes**
1.	Perlis	*Majlis Agama Islam Perlis* (Perlis Islamic Religious Council)	SIRC A
2.	Kedah	*Majlis Agama Islam Kedah* (Kedah Islamic Religious Council)	SIRC B
3.	Penang	*Majlis Agama Islam Negeri Pulau Pinang* (Penang Islamic Religious Council)	SIRC C
4.	Perak	*Majlis Agama Islam dan Adat Melayu Perak* (Perak Islamic Religious and Malay Custom Council)	SIRC D
5.	Federal Territory	*Majlis Agama Islam Wilayah Persekutuan* (Federal Territory Islamic Religious Council)	SIRC E
6.	Selangor	*Majlis Agama Islam Selangor* (Selangor Islamic Religious Council)	SIRC F
7.	Negeri Sembilan	*Majlis Agama Islam Negeri Sembilan* (Negeri Sembilan Islamic Religious Council)	SIRC G
8.	Malacca	*Majlis Agama Islam Melaka* (Malacca Islamic Religious Council)	SIRC H
9.	Johor	*Majlis Agama Islam Johor* (Johor Islamic Religious Council)	SIRC J
10.	Pahang	*Majlis Ugama Islam dan Adat Istiadat Melayu Pahang* (Pahang Islamic Religious and Malay Custom Council)	SIRC K
11.	Terengganu	*Majlis Agama Islam dan Adat Melayu Terengganu* (Terengganu Islamic Religious Council)	SIRC L
12.	Kelantan	*Majlis Agama Islam dan Adat Istiadat Melayu Kelantan* (Kelantan Islamic Religious and Malay Custom Council)	SIRC M
13.	Sabah	*Majlis Ugama Islam Sabah* (Sabah Islamic Religious Council)	SIRC N
		Perbadanan Baitulmal Sabah (Sabah Baitulmal Corporation)	BM A
14	Sarawak	*Majlis Islam Sarawak* * (Sarawak Islamic Religious Council)	SIRC P
		Tabung Baitumal Sarawak (Sarawak Baitulmal Fund)	BM B

*<u>Note</u>: Questionnaire survey and interview survey was not undertaken in SIRC P since it does not explicitly exist as a structured organisation.

Based on the above discussion, 'realism' appears to be the most relevant philosophical assumption for this study. An ontological perspective of 'realism' acknowledges that reality exists, driven by natural laws and mechanisms and is independent from human perceptions (Guba and Lincoln 1994). The epistemological assumptions of realism recognise a subjective interpretation of the real world, and individuals' comprehension of the real world as valid knowledge (Wass and Wells 1994), supporting the opinion that reality can be understood by human experience. In addition, 'realism' seems to reconciles the positivist and naturalist epistemologies and methods. Since 'realism' recognises both the existence of actual reality and its realities can be comprehended via the human mind, the use of research tools such as the questionnaire survey and interviews is viewed as acceptable for obtaining the knowledge required.

5.6 Research Design

Research design is a logical structure of enquiry that seeks to ensure that the evidence obtained enables the initial research questions to be answered as unambiguously as possible (De Vaus 2002). It may also be referred to simply as the master plan of a research that specifies the methods and procedures for collecting and analysing the required information (Zikmund 2000). In addition, a research design provides a context in which relatively unambiguous statements can be made, moving from plausible and possible to convincing and compelling (De Vaus 2002). According to De Vaus (2002), there are two qualities necessary for a good research design: internal validity and external validity. Internal validity requires a research design to be able to uphold the causal conclusion that is being claimed, whilst external validity entails the result of the study being generalisable beyond a particular study.

In choosing a research strategy, a study needs to consider the type of research questions, the extent of control a researcher has over the behavioural events and the degree of focus on contemporary, as opposed to historical, events (Yin 1992). The research questions of this study in the earlier section reflect the descriptive nature of the enquiry. Descriptive research tends to describe or highlight characteristics and existence of social phenomena, stimulates social action and provides the basis of well-targeted social policy interventions (Zikmund 2000; De Vaus 2002).

A research design also seeks to determine the answers to who, what, when, where, and how questions. Due to the descriptive nature of the present enquiry which empirically examines the accounting, accountability and effectiveness of SIRCs/baytulmal institutions as *waqf* trustees, a cross-sectional design was viewed as suitable for achieving the objectives of the study. The three distinct features of cross-sectional design are as follows:

i. Cross-sectional data are collected at one point of time. This differs from standard panel designs and pre-test and post-test experimental designs where data are collected at a number of different points of time;
ii. Unlike panel design, cross sectional design does not allow for differences to emerge over time. Cross-sectional design relies on existing differences rather than examining the impact of experimental intervention if compared with experimental design; and
iii. In cross-sectional design, ‘groups’ are constructed based on existing differences in the sample. The sample is divided up into groups according to the category of the independent variable in which they belong. However, in experimental design, the researcher actively produces differences between the groups by deliberate intervention and controlled intervention.

(De Vaus 2002)

Although cross-sectional design is ideal for descriptive research (De Vaus 2002; Miller and Salkind 2002), it suffers from two deficiencies: it is lacking in both internal and external validity, and data representativeness. The main threat to the internal validity of cross-sectional design comes from two sources: the first is a problem in establishing a cause without a time-frame and second is a problem at the level of assigning. However, these problems are not very serious for two reasons. Firstly, the two time-ordered variables might not be correlated and secondly, groups might differ in outcome. With any variable, it is not possible to be sure that the differences in outcome are due to a causal link; they could be accounted for by other factors. Moreover, any confounding variables in cross-sectional research are addressed at the data analysis stage rather than at the data collection stage (De Vaus 2002). With regard to the data representativeness, he argued that the problem is commonly due to ‘drop-outs’ of samples over the course of the studies, which may introduce sample biases. Nonetheless, the problem is alleviated through sample attrition, as cross-sectional designs do not have a time dimension. Provided the initial sample has been well chosen, the cross-sectional survey should yield data that are reflective of the population they were designed to represent. While cross-sectional designs have potential weaknesses in unambiguously identifying causes, they are strong in terms of describing cases.

According to De Vaus (2002), survey research is commonly used in studies that look into the causes of phenomena and how cases vary in some characteristics, owing to its structured approach to data collection and analysis. Survey research is often identified with cross-sectional design (Nachmias and Nachmias 1996) because data collected in the survey provides information about the same variables from at least two cases or more (De Vaus 2002). Two commonly used survey methods are questionnaire and interviews (Zikmund 2000; De Vaus 2002; Miller and Salkind 2002) and both of these methods were employed by this study. The use of both methods for data collection would allow triangulations of the study findings. Triangulations would be important for increasing confidence in the study findings and improving validity of the underlying theory of the study (Bryman and Bell 2007). The study involved two stages of data collection to meet the study requirements. A questionnaire survey was first conducted to senior officers of SIRCs/baytulmal institutions. This two-stage of data collection has been used in previous studies on public sector organisations (Pendlebury and Karbhari 1998; Mohamad 2004; Nor-Aziah and Scapens 2007). The period for conducting the questionnaire was planned as two months, including negotiating access and questionnaire collection. The questionnaire survey was employed as the main instrument in the study primarily due to its practical and efficient way of collecting data (Zikmund 2000). The method is inexpensive; each respondent is exposed to exactly the same wording; it avoids any opportunity for the respondent to be influenced by the interviewer’s bias; and a considered reply can be given since it allows the respondent time to reflect or to consult any necessary documents (Bryman and Bell 2007). Despite the problems of non-returns, the questionnaire survey was employed as it is effective in group consultations to obtain valid information and permits a wider coverage for a minimum expenditure of both money and effort.

In the second stage, semi-structured interviews were conducted to enable the researcher to develop greater understanding and to increase the knowledge of the emerging issues identified by the data collected through the questionnaire survey. Hydman and Eden (2001) asserted that interviews can be used to probe into underlying reasons for the findings from quantitative methods (i.e. questionnaire) in public sector research. Since the study is exploratory by nature, semi-structured interviews would enable the researcher to identify the dimension of problems within the research framework and to ensure that adequate data was collected to answer the research questions.

Moreover, the use of both methods for data collection was intended to enhance the validity of the overall analysis and build up a rounded and credible overall picture of the subject studied (Mason 1994). Although it has been suggested that surveys are conducted to quantify certain factual information, certain aspects of surveys may also be qualitative, such as by providing causal explanations or exploring new ideas (Zikmund 2000). Qualitative data can assist the quantitative element of the study in three stages (Miles and Huberman 1994). First, at the design stage, it can assist by helping with the conceptual development and instrumentation. An in-depth knowledge of the social context acquired through a qualitative instrument can be used to inform the design of survey questionnaires, structured interviews and self-completion questionnaires (Bryman and Bell 2007). The second is at the data collection stage, by making access and data collection easier. The third is during the data analysis, in which qualitative data can support quantitative data by validating, interpreting, clarifying, illustrating, strengthening and revising a theory. It is for the third reason that qualitative data is used in the investigation of the accounting, accountability and the effectiveness of *waqf* management in Malaysia under the trusteeship of SIRCs, by examining the current practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting.

5.6.1 Data Collection: Questionnaire Survey

This section discusses relevant considerations relating to questionnaire survey, including questionnaire design and development, types of questions, language of the questionnaire, questionnaire rationale and management, and data analysis.

5.6.1.1 Questionnaire Design and Development

The questionnaire is a widely used survey technique in social science research, enabling data collection in a structured way for a structured analysis. The main function of a questionnaire is measurement (Oppenheim 1992). Questionnaire design issues focus on questionnaire structure and wording, respondents, sampling and its potential problems, questionnaire management, and format of questions. Inherent weaknesses at the design stage of the questionnaire may lead to problems of the reliability and validity of the questions. In this study, the questionnaire was designed first by reviewing the mainstream literature on the issues of accounting, accountability and performance in both the public sector and non-profit organisations in order to gain an understanding of the accountability and performance in these organisations. The relevancy of literature on public sector organisations and non-profit organisations is based on the trusteeship of *waqf* assets and funds to SIRCs, which are categorised as state government statutory agencies. This was followed by substantial literature review on *waqf* and its management issues in Malaysia and other Muslim countries to enrich the overall study. Thirdly, a comprehensive review was also undertaken on the financial management regulations and guidelines for the Malaysian public sector organisations, namely, the Treasury Instructions, the Government Development Circulars, the Financial Management Guidelines for SIRCs and the Checklist for the Accountability Index for the purpose of developing the research instruments. The comprehensive review of these documents and resources relevant to this research was undertaken to ensure that important issues which might prove significant to the study had not been omitted.

The questionnaire was designed to answer the research questions mentioned earlier in Section 5.3 on page 145. Therefore, the following themes were identified and categorised to form the basic structure of the questionnaire:

Section A: Organisational Characteristics

Section B: Issues in Autonomy and Accountability

Section C: Strategic Planning

Section D: Budgeting and Budgetary Control

Section E: Performance Measurement

Section F: Financial Reporting Practices

Section G: Use of External Consultants

Section H: Background Information

Under each theme, a list of questions was developed to support the themes, which are also the major issues in the study. The themes also reflected the major issues of the accountability systems within the management of *waqf* highlighted in the literature.

During the fieldwork, the questionnaire was distributed in two languages (i.e. English and Malay). A copy of the questionnaire that was sent to research participants can be found in the Appendix. The questionnaires in both the English and the Malay versions contained eight sections. The English version of the questionnaire consisted of fourteen pages, while questionnaire of the Malay version had fifteen pages; both were set out on double-sided A4 paper. The cover page included the title of the research in large print and the logo of the researcher's university. In addition, the name and address of the researcher and her principal supervisor were included for identification purposes. Overall, the design, length and content of the questionnaire, including the wording of questions, were designed to ensure that potential respondents would find it convenient to complete. More importantly, the questionnaire was designed to signal the importance of the research project undertaken and that it would be undertaken in a professional manner. The inside cover of the questionnaire booklet contained a note to respondents that briefly explained the significance of the research and assured them of their anonymity.

5.6.1.2 Types of Questions

The major considerations when designing questions are their content, structure, format and sequence (Nachmias and Nachmias 1996). The questions in this study were designed in such a way as to help respondents to complete the questionnaire thoughtfully but with a minimum of time and effort. The choice between open- or closed-ended questions depends on the loss of information or condensation and compression of information to be obtained. Closed-ended questions are easier for respondents to complete since there is less writing and quantification is straightforward; it is also easier to code for analytical purposes (De Vaus 2002). However, Oppenheim (1992) highlighted several problems of close-ended questions, including loss of spontaneity and expressiveness as well as their possible introduction of bias by making respondents choose from the given alternatives. This situation would result in obtaining raw information and less opportunity to probe as there may be some loss of rapport if respondents become irritated because they feel that the choice failed to represent their own ideas adequately. Therefore, bearing this in mind, at the end of many questions, an open-ended question was included to give respondents an opportunity to highlight 'any other' issue(s) that may have been omitted. The open-ended question was not followed by any choice of answer, and answers had to be recorded in full. The chief advantage of open-ended questions was to give freedom to respondents while obtaining their ideas in their own language, and expressed spontaneously. In the light of the earlier discussion, most of the questions in this questionnaire were closed-ended questions.

In this study, respondents' attitude towards the accounting, accountability and effectiveness of *waqf* management in Malaysia were measured using Likert-type scales. A Likert-type scale is a summated scale consisting of a series of items to which the subject responds and respondents indicate their level of agreement or disagreement with each item, usually on ordinal scale (Pallant 2007). By using Likert scales the reliability of the answers tends to be high, partly because of the greater range of answers permitted to respondents and more precise information about the respondents' degree of agreement or disagreement (Oppenheim 1992). The use of Likert scales enables respondents to offer a wider range of responses, and if need be, columns can be amalgamated to facilitate statistical analysis (Oppenheim 1992). Moreover, this is normally preferred by respondents as it simple, and it makes possible to include items whose manifest content is not obviously related to the attitude in question. As respondents were guided in answering questions, they would answer what we expected them to answer, thus reducing the ambiguity of the respondents' answers. Generally, the scale allows subtler and deeper ramifications of an attitude to be explored despite being criticised for its lack of reproducibility.

More importantly, the basic criteria advocated by several research experts and questionnaire designers such as Oppenheim (1992), Fowler (1995) and Bryman and Bell (2007) to mention but a few were adhered to as far as possible. For example, to put respondents at ease, the opening question should be easy to answer, interesting and non-threatening (Oppenheim 1992).

5.6.1.3 Piloting the Questionnaire

The purpose of a pilot testing is to assess the reliability and validity of questions before conducting the study (De Vaus 2002). A pilot study is made by administering the questions to a similar but smaller sample to that which is to be used in the actual study and it will show how a variable, as defined for our purposes, can best be measured in the field. Inherent ambiguities in the design of questions may cause reliability and validity problems. These can be minimised by pretesting the questionnaire before actual management. Firstly, the questionnaire was developed and refined through extensive consultation with the researcher's principal supervisor. Once the content, structure, wording and format of the questions were approved by the principal supervisor, the questionnaire was sent to five faculty members of the International Islamic University Malaysia who had research experience in the Malaysian public sector environment. Their inputs and suggestions were incorporated into the questionnaire.

Secondly, the questionnaire was sent to three operating officers of two different SIRCs, an accountant and a senior official of JAWHAR and an executive officer of the Malaysia *Waqf* Foundation (MWF). This was undertaken prior to the questionnaire distribution to thirteen SIRCs and two baytulmal institutions as at April 7, 2010. The researcher arranged meetings with potential respondents and personally distributed the questionnaire to them to fill in. A thorough discussion on the questionnaire was performed with the senior official of JAWHAR and an operating officer of one SIRC. The rest of respondents filled in the questionnaire in the presence of the researcher, allowing them to ask for clarification in cases of ambiguity in the requirements, terminologies and wordings of the questionnaire. For the researcher, it gave insight into which questions were unclear and needed adjustments. Questionnaire is not only a matter of coming up with questions related to the research topic but designing questions that can be easily understood (Balnaves and Caputi 2001). Thus understanding the frame of reference of respondents, an awareness of ambiguity in language and the fact that each individual interprets spoken or written communication from his or her own experience and personal experience were important elements of questionnaire design. Among the criteria examined during the pilot study included the English language, the wording and structure of the questions, the time taken to fill in the questions, the suitability of questions to reflect existing practice, and their applicability to existing practice. The pilot study also gave the researcher an opportunity to identify and test potential respondents's capability to answer the questionnaire.

Since the questionnaire covered issues on management and finance, potential respondents had to have vast experience in both of these areas. Based on discussions with responsdents, particularly, the senior official of JAWHAR, the management of SIRCs/baytulmal institutions differs significantly between them in structure and sophistication. The general administration and finance functions can either share an officer as the head or can have different offices as their heads. Ideally, the CEO as the head of organisation were capable of answering the questionnaire. However, it was a common practice in these organisations that Finance Officer/Accountant directly involves in the general administration of organisations, including *waqf* management by being a member of management committees. In the case where management and finance functions have different head for each function, the Finance Officer/Accountant would be sought if the [57]CEO was not available. At the end of this consultation process a final version of the questionnaire was produced. The questionnaire was administered from

[57] The designation of the CEO may be referred differently, as stipulated in the state enactments concerning the administration of Islam and its administrative affairs, namely, *Yang Di Pertua* (Head or Chief) or Chairman. For the purpose of this study, however, the designation of CEO is used to refer *Yang Di Pertua or* Chairman or CEO. More important, the position entails executive authority in the respective SIRCs/*baytulmal* institutions..

mid April to May 2010 and was sent direct to the CEO of each of SIRCs/baytulmal institutions.

5.6.1.4 Questionnaire Rationale

General Information

This section was specifically designed to ascertain the size of the organisation. The size of the organisation was used as one of the controlled variables for analytical purposes. Organisation size has been identified as a key contextual variable with a strong effect on organisational structure (Ezzamel 1990). Larger organisations are expected to be more specialised, more standardised and more formalised in comparison with smaller organisations.

Questions 1-2 sought to determine the size of SIRCs/*baytulmal* institutions and the *waqf* management based on the number of employees. Respondents were requested to furnish the number of employees for each of the human resource categories (i.e. management and professional groups as well as supporting groups) in SIRCs/*baytulmal* institutions and their *waqf* management section. This would give an insight into the expertise available in both the SIRCs/*baytulmal* institutions as a whole and their *waqf* management more specifically.

Question 3 sought information on the approximate values of both the budgeted and actual operating expenditure. Respondents were requested to write the values in the boxes provided. The question also attempted to ascertain the size of SIRCs/*baytulmal* institutions based on the operation expenditure, which later be used as one of the controlled variables in the analysis of the questionnaire survey. The other controlled variable in the study is the type of funding.

Question 4 was designed to acquire information on the magnitude of *waqf* assets managed by each of the SIRCs/*baytulmal* institutions. This information can provide an insight into the focus and existing administrative arrangement on *waqf* in

SIRCs/*baytulmal* institutions. Mahamood (2006) asserted that the size of manpower assigned to handle *waqf* assets and funds in SIRCs was largely dependent upon the size of the *waqf* vested in them.

Section A: Organisational Characteristics

The purpose of this section is to ascertain the characteristics of the organisations under study, such as the type of funding, existing collaborations and their future planning for corporatisation/privatisation. The type of funding is another controlled variable used to determine differences in sub-groups of the population during data analysis.

Question 1 sought to ascertain the type of funding of SIRCs/baytulmal institutions. The type of funding may have an impact on the effectiveness and the accountability of SIRCs/baytulmal institutions. Respondents were asked to indicate if their organisations were receiving full or partial financial support from either the federal or state governments, or if they were self-sustaining their expenditure. Respondents were also given an option of ‘Others’ if their organisations received financial support from any other sources mentioned earlier.

Questions 2-3 were developed to obtain information on any collaboration arrangement between SIRCs/*baytulmal* institutions with other organisations. As part of the effort to relief public sector organisations from excessive financial burden, the Malaysian government encourages its agencies to collaborate with private sector in the deliveries of public goods and services. Collaboration could be in the form of joint-venture, contracting out the provision of goods and services, or public-private partnerships. Question 2 asked respondents to indicate whether their organisation had commenced any of such collaboration by selecting a ‘Yes’ or ‘No’ response. Question 3 sought to identify the parties that SIRCs/*baytulmal* institutions are collaborating with. Any party not specified in the questionnaire was to be declared in the ‘Other’ option.

Questions 4-5 focused specifically on the future planning of SIRCs/*baytulmal* institutions with regard to privatisation and/or corporatisation. This economic restructuring in public sector aimed to improve the efficiency and effectiveness of public service deliveries through marketised approaches (Parker and Gould 1999; Siddique 2006a). Corporatisation/Privatisation also lessens public sector agencies from lengthy and perhaps unnecessary bureaucratic procedures and decision-makings. The *Majlis Ugama Islam Sabah* (Sabah Islamic Religious Council) and *Majlis Islam Sarawak* (Sarawak Islamic Council) established the *Perbadanan Baitulmal Sabah* (Sabah Baitulmal Corporation) and *Tabung Baitulmal Sarawak* (Sarawak Fund) respectively, to expediate the mobilisation of the Islamic resources for the socio-economic development in the respective states. On the other hand, other SIRCs have corporatised the section for the collection of *zakah*, aiming to improve the efficiency of the management of *zakah* collection. Thus, Question 4 was developed to elicit by the selection of a 'Yes' or 'No' response, whether SIRCs had any plan to either privatise or corporatise other programmes or activities. Meanwhile Question 5 was designed to obtain further information of which programmes or activities were to be privatised or corporatised by requesting respondents to state them in the appropriate spaces labelled 'Corporatisation' and 'Privatisation'.

Section B: Issues on Autonomy and Accountability

Greater autonomy carries more accountability. In the Article 3 of the Malaysian Constitution, the state government is empowered for the administrative aspects of Islam and the Malay customs. The policy-making of the management of Islam and the socio-economic progress of the Muslims in the state are accorded to the State Islamic Religious Council (SIRC). Thus in executing these important roles, SIRC is granted greater freedom and flexibility for the managerial operations, which include the fiscal operation. Managerial autonomy authorises SIRCs/*baytulmal* institutions to manage the organisations and their resources in the best way to generate productivity gains (Ezzamel 1990; Islam 1993). On the other hand, fiscal autonomy gives substantial discretionary power to manage financial resources of the organisations. Thus this section has two main objectives. First, it attempted to obtain insights into the extent of autonomy granted to SIRCs/*baytulmal* institutions in the managerial and fiscal operations. Second, the section attempted to ascertain the presence of multidimensional accountability relationships in SIRCs/baytulmal institutions. Sinclair (1995) asserted that senior management in the Australian public sector needed to understand the different types of accountability in the organisations for them to understand their roles and responsibilities. Thus, questions were designed to elucidate the extent of interaction of these two elements' within SIRCs/baytulmal institutions.

<u>Question 1</u> was designed to ascertain the party afforded with the greatest executive authority in setting priorities of organisationalactivities in SIRCs/*baytulmal* institutions. The question also attempted to uncover whether external parties would have an influence in organisational operations of SIRCs/*baytulmal* institutions. Respondents were requested to rank the extent of executive authority granted to each authority by selecting a ranking from 'None' to 'Full'.

<u>Question 2</u> was developed to obtain information on the extent of influence of JAKIM, JAWHAR and MWF toward the management of *waqf* in SIRCs/*baytulmal* institutions. The result would indicate the acceptance of SIRCs/*baytulmal* institutions on ideas, plans and strategies propagated by these agencies for the purpose of developing *waqf* assets and funds. As such, respondents were asked to rank the extent of the influence by selecting a ranking from 'None' to 'Full'.

<u>Question 3</u> attempted to uncover the extent of accountability of SIRCs/*baytulmal* institutions towards relevant authorities in the accountability framework, both at the federal and state governments. The relevant authorities examined in the questionnaire consisted of the Parliament, the State Legislative Assembly (SLA), the Federal and State Treasury, the National Audit Department (NAD) and the Public Accounts Committee (PAC). The extent of accountability would give insights into the level of expectations resulting from transfers of resources and/or responsibilities between SIRCs/*baytulmal* institutions and the relevant authorities.

Question 4 was designed to understand the extent of importance SIRCs/*baytulmal* institutions attached to each principal management tool in discharging their accountability; namely, strategic planning, annual budgets, performance measurement system, performance reports and annual reports. The perceptions of senior and operational managers on the importance of each principal management tool could provide insights into the focus and deployment of organisational resources for accountability purposes. Respondents had to rank the importance of the principal management tools to discharge the accountability in their organisation by selecting from a scale of 1 to 5 representing 'Not Important' to 'Very Important'. Respondents were also given an option of 'Other' if using other management tools than those mentioned in the questions.

Question 5 This question is complementary to Question 1 in the section. It was designed fundamentally to ascertain the level of authority granted to SIRCs/*baytulmal* institutions in managing the operational activities and establishing their future positioning. Operational activities were primarily involved with the annual budgets, performance measurement and reviews, accounting system and staff management whilst organisational goals and objectives, long-term planning, and investments concern with the future positioning of an organisation. Thus, in order to gauge the level of authority afforded to SIRCs/*baytulmal* institutions in relation to operational activities and the future direction, respondents were requested to rank the extent of authority based on a scale of 1 to 5 representing the level of autonomy concerned for each of the principal activity listed in the question.

Questions 6-8 focused on examining the collaborations between SIRCs/*baytulmal* institutions, and the Malaysia *Waqf* Foundation (MWF). In the Ninth Malaysia Plan (9^{th} Malaysia Plan) the Malaysian government allocated RM250 million exclusively for the purpose of *waqf* development. JAWHAR and MWF were entrusted to coordinate with SIRCs/*baytulmal* institutions for the development of *waqf* assets and funds throughout the country. Question 6 was to ascertain the presence of the collaboration between SIRCs/*baytulmal* institutions and JAWHAR/MWF by selecting a 'Yes' or 'No' responses. The answers to this question determined whether respondents should proceed to Question 7 that sought to obtain more information on potential financing structure for such collaborations. Potential financing structures include full and partial funding from both the Federal and State governments, fund raised by SIRCs/*baytulmal* institutions itself and cash *waqf* raised by MWF. Respondents were also asked to indicate if there was any financial arrangement from either the private sector or individuals for this collaboration. To do so, respondents were requested to tick the options of possible financing structures for the arrangement. Question 8 then attempted to gauge the perceptions of the senior and operational officers on potential implications of such arrangement on the *waqf* management in SIRCs/*baytulmal* institutions. Respondents were requested to rank the potential implications on the *waqf* management by selecting from a scale of 1 to 5 representing the perception levels of 'Strongly Disagree' to 'Strongly Agree'.

Section C: Strategic Planning

The increased expectations and demands from the public for efficient public service deliveries have pressured organisations, particularly those depend on public contributions to finance their operations, to improve their accountability and performance (Siciliano 1996). Strategic planning involves the determination and establishment of long-term directions and formulate and implement strategies to accomplish the long-term objectives as well as coping with the changing environment in the public sector (Ugboro et al. 2011). Accordingly, this section attempts to investigate the strategic planning practices in SIRCs/*baytulmal* institutions.

Question 1 was designed to ascertain the existence of strategic planning for operational activities, capital investments and *waqf* activities in SIRCs/*baytulmal* institutions by respondents' selecting a 'Yes' or 'No' response.

Question 2 aimed to gain an understanding of the approaches adopted by SIRCs/*baytulmal* institutions in carrying out their activities. It was argued that strategic planning may be adopted to ensure restricted resources are exploited to achieve organisational goals and objectives (Kaplan 2001). However, in the case of SIRCs/*baytulmal* institutions, other approaches of undertaking activities have to be considered in responding toward urgent and unexpected needs of the public and beneficiaries. Accordingly, respondents were required to indicate the approaches adopted by SIRCs/*baytulmal* institutions in responding to the increasing and varied demands and expectations from the public and their beneficiaries. Respondents were allowed to tick more than one approach to provide information on the diversity of the approaches.

<u>Question 3</u> was developed to ascertain the existence of the costs and benefits analysis in SIRCs/*baytulmal* institutions. The analysis constitutes the public accountability of public sector organisations and is particularly crucial in these organisations experiencing limited financial and human resources. Respondents were requested to select a 'Yes' or 'No' response.

<u>Question 4</u> enquired about the time-scales for the execution of strategic planning in SIRCs/*baytulmal* institutions. As discussed in Chapter 3, the development planning of the Malaysian government is divided into three time-frames: long-term, medium-term and short-term planning. The long-term planning can cover more than thirty years, while the medium term planning is executed within five years. Government agencies in Malaysia which include state statutory bodies are encouraged to align their planning dimensions, including those of annual budgets, with the national development planning. In the absence of congruency with the national development agenda, the organisations would not only be left out from the mainstream development agenda but may be also not benefitting any financial allocation. The question required respondents to indicate the time-scales advocated in their organisations to execute strategic planning.

<u>Question 5</u> sought to obtain information on parties involved in the development of strategic planning in SIRCs/baytulmal institutions. The development stage of strategic planning requires inputs from various parties of varying expertise and experience in the organisation to assure its effectiveness in meeting the pre-determined organisational goals and objectives. Accordingly, respondents were requested to choose from a list comprising the CEO, Heads of Division/Department, Board of Councils, external auditors, and advisory boards. Respondents were also given an option of 'Other' if using other management tools other those than mentioned in the questions.

Question 6 was designed to obtain information on the perception of senior managers on the importance of fundamental elements in the strategic planning. The perception of senior managers toward each of the fundamental elements of strategic planning was measured using a five-point Likert scale of 1 to 5 representing ‘Not Important’ to ‘Very Important’.

Questions 7-10 focused on the monitoring aspects of strategic planning in SIRCs/*baytulmal* institutions. Monitoring procedures in planning activities are vital to ensure the effectiveness of strategic planning. Question 7 was developed to ascertain the existence of formal review in SIRCs/*baytulmal* institutions by requesting respondents to select a ‘Yes’ or ‘No’ response. Linked to this, Question 8 enquired as to the identity of the party with the principal responsibility of undertaking the review processes. The respondents were asked to choose from a list consisting of CEO, head of division/dept/managers, finance director/accountant, internal auditors, and advisory boards. Respondents were also given an option of ‘Other’ if the relevant party was not listed in the options. Further, Question 9 attempted to gain an understanding on the focus and deployment of resources by SIRCs/*baytulmal* institutions when executing strategic planning. The perception of senior managers who were directly involved in the execution of the strategic planning could provide insights into the management of strategic planning. Accordingly, the perceptions on organising plans into actionable policies, defining roles and responsibilities, communicating the plans, the presence of systems of feed-backs and follow-ups and the top management support were measured using a five-point Likert scale of 1 to 5 representing a rank of ‘Not Important’ to ‘Very Important’. Finally, Question 10 was developed to obtain information on whether a follow-up policy was in existence for the operational, capital and *waqf* activities in SIRCs/*baytulmal* institutions by asking respondents to select from a ‘Yes’ or ‘No’ response.

Question 11 attempted to understand the extent of influence of current strategic planning in SIRCs/*baytulmal* institutions on the existing *waqf* management. In doing so, respondents were asked to rank how importance the strategic planning towards of the *waqf* management in SIRCs/*baytulmal* institutions by selecting a scale ranging from 'Not Important' to 'Very Important'.

Section D: Budgeting and Budgetary Control

Budgetary activities are the heart of the public sector organisation. Despite being an important element in the public sector operation, Abdul-Rahman & Goddard (1998; 2003) uncovered that budgets in two SIRCs studied were typically expenditure-oriented and merely involved 'routine' activities of forecasting, controlling and communicating. The study attempted to examine the present state of budgeting and budgetary control practices in SIRCs/*baytulmal* institutions.

Question 1 was designed to ascertain the types of budgets prepared by SIRCs/*baytulmal* institutions. This information could provide an insight into the short-term planning activities within SIRCs/*baytulmal* institutions. Respondents were requested to indicate the types of budget prepared by ticking the relevant boxes for revenue, expenditure, and capital budgets labelled with 'Yes' and 'No'.

Question 2 was specifically designed to obtain information on the 'culture' of budget preparation within SIRCs/*baytulmal* institutions. The culture could indicate the extent of the participation of various parties during the budget preparation processes.

Question 3 was included to obtain information on the level of participation of relevant parties during the budget preparation stage in SIRCs/*baytulmal* institutions. Xavier (1996b) claimed that the participation of top management during budget preparation stage is crucial as certain processes require strategic planning and prioritising, which cannot be left to lower management. At the same time, the question could give insights into the extent of the influence of external parties towards the budget preparation processes in SIRCs/*baytulmal* institutions. Hence, respondents were asked to rank the participation level of each relevant party using a five-point Likert scale of '1' to '5' representing 'No' to 'Full' participation levels.

Question 4 was designed to ascertain which party had the ultimate authority in the budget allocation in SIRCs/*baytulmal* institutions. In addition, the question attempted to uncover the potential existence of 'flexibility' in the budget allocation system in these organisations. Respondents could choose from a list comprising the CEO, Board of Councils, the Treasury, Finance Director/Accountant, Budget Committee and 'Others'.

Questions 5-10 sought to obtain information on the budget monitoring practices in SIRCs/*baytulmal* institutions, as an effective budget allocation is dependent on the budget monitoring activities in an organisation. Question 5 was a rolling question that sought to find out the existence of formal budget reviewing practices in SIRCs/*baytulmal* institutions simply by requesting respondents to select a 'Yes' or 'No' response. Meanwhile Question 6 enquired specifically as to the frequency of the review by requesting respondents to choose from a list of daily, weekly, monthly, quarterly, half-yearly, and yearly. The possibilities of budget shortages were asked about in Question 7. These two questions (Questions 6 and 7) were to indicate the extent of the commitment of the management in ensuring that budget objectives were accomplished. Questions 8 and 9 were included to obtain information on the management information system with regard to budgetary control in SIRCs/*baytulmal* institutions. Question 8 enquired the method of disseminating critical budgetary control data (i.e. actual expenditure) to relevant parties in SIRCs/*baytulmal* institutions. Respondents were asked to indicate if the information could be accessed via on-line or/and made available in hard-copy printouts. In addition, Question 9 required respondents to indicate the frequency of hard-copy printouts of the control data if there were printed out. These two questions (Question 8 and 9) would give insights into the degree of control that the organisations were able to exercise in providing relevant and timely information. Meanwhile Question 10 was designed to ascertain the level of participation of relevant parties, both internal and external, in the budget monitoring exercise. Respondents were requested to rank the participation level of each party by selecting a scale from 1 to 5 representing 'No' to 'Full' participation.

Question 11 was developed specifically to ascertain the functions of budgets in SIRCs/*baytulmal* institutions. To do so, the perceptions of senior managers as to the importance of budgets as a planning, motivational, co-ordination, performance measurement, control and communication tool were measured using a five-point Likert scale of a scale ranging from 1 to 5 representing ‘Not Important’ to ‘Very Important’.

Question 12 was included to examine the perceptions of senior managers of SIRCs/*baytulmal* institutions on the importance of current budgetary practices in *waqf* management in their organisations. Respondents were requested to indicate their level of agreement for each element of *waqf* management by selecting from a five-point Likert scale ranging from 1 to 5 representing ‘Strongly Disagree’ to ‘Strongly Agree’.

Section E: Performance Measurement

Performance measurement has been introduced within the reform package in the Malaysian public sector to promote efficient, effective and accountable management operations. All the Malaysian government departments and agencies are expected to adopt various performance initiatives introduced by government in the managerial reform package. Bearing in mind the level of sophistication in the organisational structure of SIRCs/*baytulmal* institutions, the questions in this section were designed to obtain information on fundamental matters of the practice only.

Question 1 was to ascertain the existence of performance measurement practices in SIRCs/*baytulmal* institutions by requiring respondents to select a ‘Yes’ or ‘No’ response. If only the performance measurement was in place, respondents were requested to answer other questions on performance measurement practices in the section.

Question 2 was developed to identify the parties involved in the development of performance indicators in SIRCs/*baytulmal* institutions. The involvement of relevant parties in the setting processes was crucial in order to obtain multi-dimensional features of performance indicators. Accordingly, respondents were requested to indicate the parties (respondents could tick more than one response) who participated in the setting process of performance indicators.

Question 3 was designed to determine the type of performance indicators commonly used by SIRCs/*baytulmal* institutions in measuring their performance by asking respondents to choose from options of either financial or non-financial indicators.

Questions 4-5 were included to elicit information on performance monitoring as an integral part of performance measurement practice. Therefore, Question 4 was designed to establish which party had the principal responsibility for monitoring the overall performance of SIRCs/*baytulmal* institutions. Following this, Question 5 was designed to obtain information on the frequency of monitoring performance targets in SIRCs/*baytulmal* institutions. Accordingly, respondents were asked to choose from the options given; namely weekly, monthly, quarterly and yearly. Any other frequency was to be stated in the 'Others' option provided.

Question 6 sought to establish the extent of a budget's being a performance measurement tool in SIRCs/*baytulmal* institutions. Respondents were therefore requested to select options ranging from 'Not Important' to 'Very Important'. Responses from this question would be verified against findings from the Section D (Budget Preparation and Control) on the perception of senior managers towards the functions of budget in these organisations.

Question 7 was included to determine the medium used to report performance information in SIRCs/*baytulmal* institutions. Performance information is one of the most important aspects of information that should be reported to aid the discharge of accountability of organisations, including the non-profit-making organisations (Mayston 1985; Boyne and Law 1991; Miah 1991; Connolly and Hyndman 2004). The question required respondents to rank the frequency of employing websites, Annual Reports, internal circularisation, management reports, ceremonies or events and mass media for reporting performance information in these organisations. The medium of reporting used could also provide insights into the purposes of reporting performance information.

Section F: Financial Reporting Practice

Reporting performance, both financial and non-financial, is crucial to organisations as it helps to build public confidence. Lee (2004) argued that reporting was regarded as a proactive management tool to strengthen the organisation's standing. Timely, relevant, transparent and understandable reporting can offer greater insight into the activities and performance of SIRCs to contributors, donors, beneficiaries and the public in general. Hence, this section sought to examine the financial reporting practices of SIRCs/*baytulmal* institutions.

Questions 1-5 sought information on the components of the Annual Reports of SIRCs/*baytulmal* institutions. Question 1 was designed to establish the components of the Annual Reports in these organisations based on the Financial Reporting Standard 1 (FRS 1). Respondents were asked to identify the components from a list consisting of Receipt and Payment Account, Income and Expenditure Account, Cash Flow Statement, Balance Sheet, Notes to the account and Statement of Assets and Liabilities. Respondents were also invited to state any 'Other' documents not mentioned in the question. Question 2 was included to obtain information on whether the disclosures of revenues and expenditures were in accordance to the different classes of funds, as the vast majority of SIRCs/*baytulmal* institutions were entrusted to hold and administer more than one fund. Fund reporting is required by the Statutory Bodies Act 1980. Questions 3-4 were specifically designed to obtain information on the descriptive disclosures of current (Question 3) and future activities (Question 4). Such information enabled contributors and the public to assess the performance of SIRCs/*baytulmal* institutions as well as informing them on the revenue requirement for the ensuing period. Question 5 was included to obtain information on whether the *waqf* assets and their liabilities were separately disclosed in Annual Reports of SIRCs/*baytulmal* institutions.

Question 6 sought to gain understanding of the regulatory framework governing the accounting operations in SIRCs/*baytulmal* institutions. Abdul-Rahman and Goddard (2003) asserted that deficiencies in the disclosure practices in SIRCs partly attributable to laxity in the regulatory framework. Hence, respondents were required to rank the significance of accounting standards/guidelines and financial management regulations in the accounting operations of SIRCs and *baytulmal* institutions by selecting from a scale of '1' to '5' representing 'Not Significant' to 'Very Significant'.

Question 7 was developed to gain an understanding of the management information system in relation to the frequency of reporting main financial statements; namely, Receipts and Payments Accounts, Income and Expenditure Accounts, Balance Sheets, Cash Flow Statements, Statement of Assets and Liabilities and Statement of changes in the funds. Respondents were invited to identify the frequency of reporting these financial statements, ranging from 'Monthly' to 'Yearly'.

Questions 8-9 were specifically designed to obtain information on the reporting practices related to *waqf* in SIRCs/*baytulmal* institutions. Question 8 sought to determine whether SIRCs/*baytulmal* institutions maintained separate accounts to record financial transactions that were related to *waqf*. Question 9 was developed to identify the types of financial statements being maintained for *waqf*-related transactions in SIRCs/*baytulmal* institutions.

Questions 10-11 were developed to obtain specific information on the introduction of *Waqf* Accounting and Management Manual (Manual) by JAWHAR. The Manual was issued in 2007 and aimed at promoting consistent practice in the accounting and reporting of the financial information of *waqf* in SIRCs/*baytulmal* institutions. Related to this, Question 10 sought to establish the level of acceptance of the Manual by SIRCs/*baytulmal* institutions. Respondents were asked to choose options ranging from 'Fully adopt' to 'Potentially adopt in the future'. Question 11 was designed to learn the perception of senior management on the effect of issuing the Manual on the disclosure practices of *waqf* information in SIRCs/*baytulmal* institutions. Respondents were requested to rank their agreement based on a scale of 1 (Strongly Disagree) to 5 (Strongly Agree).

Section G: Use of External Consultants

This section attempted to determine the extent of the usage of external consultants by SIRCs/*baytulmal* institutions in the course of developing fundamental management systems, accounting system, personnel management and organisational reviews. This question can indirectly point to organisations' current concerns, areas of weaknesses and areas for further possible improvement. Respondents were asked to indicate the level of usage by selecting a scale from 1 to 3 representing 'None' to 'Full'.

Section H: Background Information

This section sought information on respondents. The information required included respondents' designation, and total period of employment in the organisation. The primary aim of these background questions was to provide additional information to enhance the quality of the questionnaire survey. Pendlebury & Karbhari (1997) asserted that senior managers in the civil service provide an authoritative source of information. Essentially, if respondents are well qualified, hold senior positions, and possess a wealth of experience in the organisation gained over many years, then the views will represent an authoritative and highly relevant source on which to base an examination on the operational effectiveness of accountability systems, namely; planning activities, budgeting, performance measurement and reporting practices of SIRCs/*baytulmal* institutions.

5.6.1.5 Questionnaire Administration

The prime objective in employing a questionnaire survey is to maximise the quantity and quality of responses. Saunders et al. (1997) referred to two types of questionnaire management: self-administered (postal, delivery and collection) and interviewer-administered (telephone questionnaire and structured interview). In this study, the self-administered questionnaire method was employed to collect data for its superiority to that of the interviewer-administered questionnaire in terms of obtaining accurate answers (Oppenheim 1992; De Vaus 2002). In addition, responses from the self-administered questionnaire are expected to be more spontaneous than those from an interviewer-administered questionnaire because of the absence of interview sessions. Fixing interview sessions with government officials were not always straightforward as these officials were all busy with their official commitments, which subsequently would lead to delays and involve a substantial amount of time. In delivering the questionnaire, the study used an express postal service to guarantee that each questionnaire arrived at the right destination at the expected time. The high response rate was a vital requirement in this study as it attempted to ascertain the effectiveness and the accountability of the entire population consisting of thirteen SIRCs and two *baytulmal* institutions but operating withing a high degree of geographical diversity. Accordingly, the researcher also took several measures in order to secure a high response rate.

Firstly, each questionnaire was personally addressed to the named head of the organisations, together with a covering letter to draw attention to the importance of the survey and to provide assurance of the anonymity of respondents. If other senior staff had sufficient experience and was able to answer the questions, the head was requested to pass the questionnaire to these staff through the Personal Assistant (PA). The PA was an important resource at a later stage when carrying out follow-ups on the completion of the questionnaires. Secondly, each respondent was supplied with a stamped and self-addressed envelope to return the questionnaire. A personal message to the respondent was included along with the questionnaire booklet reminding them the importance of the research. A personal thank-you message for their time, effort and co-operation was also conveyed in the note. Thirdly, as the fieldwork was undertaken in the Malaysian public sector environment where Malay, the national language, is dominant, the questionnaire was translated into Malay. The translated questionnaire was sent to target respondents together with the English version in different colour print (the English version was printed in green while the Malay version was printed in yellow) for easy identification. A note offering the options of answering either version was attached to the questionnaires. To ensure the consistency of the translation, the questionnaire was sent to Malaysian PhD students at the Cardiff Business School and later pilot-tested with senior officials of two SIRCs located around the Klang Valley, Malaysia, and two federal agencies involved in the *waqf* institutions, namely, JAWHAR and MWF.

The follow-up stage was as important measure as the distribution of the questionnaire itself for ensuring a high level of good quality responses. Several follow-ups and reminders were made to encourage the target respondents to complete the questionnaire. In each of the follow-ups, the researcher contacted the potential respondents through the PAs concerned in each SIRCs/*baytulmal* institutions regarding the completion status of the questionnaire. In the questionnaire survey, some respondents needed several reminders for the completion of the questionnaire. The reminders needed to be carried out with due care of diligence, exercising communication skills to ensure respondents became cooperative. The questionnaire was mostly delegated to operational officers to provide the relevant information and complete the questions. The researcher also prepared a monitoring table to help in monitoring the reply stage of each questionnaire.

More than fifty percent of the questionnaire were returned after reminding respondents over the phone. Respondents were generally very busy with official duties and engagement that they do not have the time to fill out the questionnaire. A couple of them perceived that there would be no apparent benefit out of the survey. After several reminders, 38 were completed and returned out of the 56 questionnaire distributed to respondents. However, two questionnaire were unusable resulting to 64.3%. An analysis was undertaken of the status of respondents having completed the questionnaire and results are reported in Table 5.6.1. The distribution of the responses shows that 91.7% of responses represented the operational levels of finance and management of *waqf*. The responses of the top management level (8.3%) comprise a CEO, a Deputy CEO and a Director of a *Baytulmal* Division of different SIRCs/*baytulmal* institutions. Since respondents were actively involved in their respective managerial and operational levels, any opinion or perceptions offered by them would be regarded as valid in representing the management and operations of SIRCs/*baytulmal* institutions, thus minimising the risk of response bias.

Table 5.6.1: Distribution of Respondents for the Questionnaire Survey

Position	**No**	**%**
Top Management Level:		
Deputy CEO/Assistant Secretary/Director	3	8.3
Operational Level:		
Finance staff/personnel	18	50.0
Administration staff/personnel	15	41.7
Total	**36**	**100**

Respondents were also asked to state their period of employment in the SIRCs/*baytulmal* institutions. The responses revealed in Table 5.6.2 shows that over 85% of these respondents had less than 10 years working experience in SIRCs/*baytulmal* institutions. The results shows that most of these respondents were recruited after restructuring initiatives took place in most of the SIRCs/*baytulmal* institutions. Although about 50% of them had less than 5 years of experience in the organisations, their experienced was gained when SIRCs/*baytulmal* institutions existed as independent and structured organisations. Thus respondents'accounts and perceptions on the accounting, accountability and effectiveness of *waqf* management in Malaysia were therefore authoritative and sufficient for the study.

Table 5.6.2: Analysis showing Respondent's Period of Employment in SIRC/*baytulmal* Institutions

Length of Services	**No**	**%**
Less than 5 years	15	41.7
Between 5 and 10 years	16	44.4
More than 10 years	5	13.9
Total	**36**	**100**

5.6.1.6 Statistical Analysis Techniques for the Questionnaire Survey

According to De Vaus (2002), the two main reasons for statistical analysis are descriptions and inference. Descriptive statistics summarise patterns in a sample while inferential statistics establish if findings for a sample can be extrapolated to the wider population from which sample is drawn. Quantitative data need to be analysed and the results of the analysis need to be interpreted. Statistical packages are a major tool for analytical purposes in social science research. The study used the Statistical Package for Social Science (SPSS) in undertaking the statistical analysis. Kerlinger (1986) described the three main reasons for using statistical analysis as being: first, to reduce large quantities of data to a manageable and understandable form; second, to assist the study of the population and samples; and finally, to help in making reliable inferences. As the study adopted a cross-sectional design, statistical analysis was used to test the type of relationships between variables (Nachmias and Nachmias 1996). De Vaus (2002) indicated that three factors affect how data are analysed: the number of variables being examined at a time, the level of measurement of the variables, and whether the data are used for descriptive or inferential purposes. In this study, two stages of analytical concept were conducted.

Firstly, a descriptive analysis was undertaken for each variable. De Vaus (2002) indicated that descriptive analysis is ideally suited for cross-sectional survey design, involving counting to establish how many respondents have a particular opinion. Zikmund (2000) in particular referred to two methods of descriptive analysis: tabulation to summarise the data, and measures of central tendency (i.e. mean, median or mode). Both of these methods were used in this study. The mean was used as a measure of central tendency, which is useful for ranking variables, particularly in cases involving extreme values. Percentages, together with the counting of numbers were used for summarising the data and were extremely useful for comparing trends. Since the study was undertaken on the entire population (i.e. no sampling was undertaken), inferential analysis of each variable was unnecessary.

Secondly, the results of each variable were analysed by control variables to test any statistically significant difference between subgroups within the control variables. The control variables in this study were the size and type of funding. The main issue concerning the analysis of control variables was deciding which statistical test to use. The selection of two statistical tests (parametric and non-parametric) was based on which test was considered the most appropriate to the conditions of the data available because each test was only valid under certain conditions (Siegel and Castellan 1988). A parametric test is a test whose model specifies the following conditions:

i. The observations must be independent of error;

ii. The observations must have equal variance in the various treatment population;

iii. The observations must be drawn from a normally distributed scores in the treatment of population;

iv. The variables must be measured on an interval scale; and

v. Addivity of effects.

The usefulness of the parametric test depends on the validity of the aforementioned assumptions, while a non-parametric statistical test was based on very general conditions and does not require any specific form of distribution of scores in the population. They are considered distribution-free since they make no assumption with regard to the distribution of scores in the population (Siegel and Castellan, 1988). The non-parametric tests do not require measurement on an interval scale and do not require the data to meet the stringent assumptions of normality and homogeneity of the variance required by the parametric methods. In addition, a non-parametric test does not require an interval scale. Based on these assumptions, the non-parametric tests was apparently preferred in this study. The study used the ordinal scale to gauge respondents' attitude/opinions. In addition, Bereson and Levine (1989) also indicated that non-parametric methods are generally easy to apply when the sample sizes are small and are almost as powerful or as equally powerful as parametric tests when the assumptions of the latter are met and may even be considerably more powerful when the assumptions of the parametric procedures are not met.

Based on the above discussion, the non-parametric test was clearly preferable and was therefore employed in this study to analyse questionnaire survey data by control variables. The study used the Kruskal-Wallis H tests to analyse the data by control variables. However, it is important to recognise that it is disadvantageous to use non-parametric methods when all the assumptions of the parametric procedures are met and the data is to be measured on either an interval or ratio scale. Therefore, cross-tabulation was also undertaken to present the result analysis by control variables. The presentation via cross tabulation is the simplest and most frequently used way of demonstrating the presence or absence of a relationship (Bryman and Cramer 1990; Zikmund 2000). Moreover, the statistical analysis by control variables was conducted based on the five-point Likert scale, but for presentational purposes, responses were collapsed into two or three categories for each control variable.

5.6.2 Data Collection: Semi-Structured Interviews

Personal interviews are direct communications and provide the opportunity for feedback to the respondent in which the interviewer may also provide feedback by clarifying any questions (Zikmund 2000). At this stage, the study aimed to obtain practical insights into the accountability systems in SIRCs/*baytulmal* institutions and the processes and the experience of people in the processes. Accordingly, a series of interviews were conducted between May and June 2010 in thirteen SIRCs, two *baytulmal* institutions, JAWHAR, MWF and NAD. The profiles of the interviewees are listed in Table 5.6.3. Interview protocols were used during the interviews and these can be found in Appendix III. The questions developed for the interview schedules followed a similar pattern to those in the questionnaire survey to accomplish the purpose of the interviews and also to clarify the responses obtained from the questionnaire survey. More importantly, the opportunity was taken to obtain information on the practical issues related to topic studied and thus enriching the overall study.

In this study, a semi-structured interview approach was employed because it allows interviewees a degree of freedom to explain their thoughts and experience and allows the researcher more flexibility to control over time, content, and the sequence of interviews. The researcher may also answer any questions the respondent may ask, clarify any misunderstandings and probe answers to open-ended questions. It also enables the researcher to probe the thoughts and experience of the interviewees in greater detail (Zikmund 2000). A question memoir was developed, specifying topics related to the research questions. In addition, the researcher should not be so rigid as to make the information collected biased towards certain directions preferred by the researcher, nor be so flexible that the interview is too broad and without focus. Structured and unstructured interviews were discounted from this study. The structured interview was not used as it has the predetermined specific answer categories in which interviewees were not free to provide additional information. Similarly, unstructured interviews were considered unsuitable for this study as these are usually very time-consuming and would therefore have been impractical given the time constraints of interviewees who were extremely busy with their working commitments.

5.6.2.1 Types of Interview Questions

There are three types of questions in the interview sessions: open-ended questions, closed-ended questions and funnel questions, as well as probing questions to enable the researcher to discover the motivation and reasons behind certain ideas. Based on their affirmative or non-affirmative responses, probing questions helped the researcher discover the reason behind the initial responses. Open-ended questions were used to start a new topic in the interview session. This type of question is beneficial when the researcher is conducting an exploratory research and is hoping for free responses and spontaneous expressions. However, the responses require extensive coding, editing and data analysis. Open-ended responses are also prone to interviewer bias due to combining the respondent's and the interviewer's ideas in transcription process (Zikmund 2000). Another disadvantage is the risk of prolonged discussion, leading to difficulty in completing the original questions in the schedule. Meanwhile, in closed questions, a respondent is given specific, limited alternative responses and is asked to choose the one closest to his or her viewpoint (Zikmund 2000). Thus, the study conducted five pilot interviews to test the understandability of the questions in the interview schedules and to give an indication of the length of time it would take to finish the listed questions.

5.6.2.2 Types of Interviewees

Interviews were conducted in thirteen SIRCs, two *baytulmal* institutions (each in Sabah and Sarawak), JAWHAR, MWF and the NAD. In total, 36 interviews were conducted and the profiles of interviewees are presented in Table 5.6.3 on page 180. Two interviewees were selected from each SIRC and *baytulmal* institutions; one was to give an extensive account on the overall management of SIRCs/*baytulmal* institutions including the *waqf* management and the other was to provide information on the financial management aspects.

Table 5.6.3: An analysis showing the Profiles of Interviewees for the Semi-Structured Interviews			
No.	**SIRC**	**Designation of Interviewees***	**Length of Service**
1.	*Majlis Agama Islam Perlis* (Perlis Islamic Religious Council)	i. Accountant ii. Assistant Economic Affairs Officer	26 years 2 years
2.	*Majlis Agama Islam Kedah* (Kedah Islamic Religious Council)	i. Accountant ii. Islamic Affairs Officer (*Waqf* Unit)	10 years 9 years
3.	*Majlis Agama Islam Negeri Pulau Pinang* (State of Penang Islamic Religious Council)	i. Assistant Accountant ii. Economic Affairs Officer (Finance & Admin) iii. Manager (*Baitulmal* Division)	15 years 8 years 13 years
4.	*Majlis Agama Islam dan Adat Melayu Perak* (Perak Islamic Religious and Malay Custom Council)	i. Accountant ii. Assistant Administrative Officer (Property Division)	7 years 15 years
5.	*Majlis Agama Islam Selangor* (Selangor Islamic Religious Council)	i. Deputy Secretary ii. Chief Accountant iii. Accountant (Budget) iv. Islamic Affairs Officer (*Waqf* Unit)	20 years 11 years 7 years 11 years
6.	*Majlis Agama Islam Wilayah Persekutuan* (Federal Territory Islamic Religious Council)	i. Deputy CEO ii. Accountant (Accounts) iii. Accountant (Budget)	3 years 6 years 3 years
7.	*Majlis Agama Islam Negeri Sembilan* (Negeri Sembilan Islamic Religious Council)	i. Manager (*Baitulmal* Division) ii. Accountant	14 years 7 years
8.	*Majlis Agama Islam Melaka* (Melaka Islamic Religious Council)	i. Assistant Secretary (Finance & Account) ii. Assistant Secretary (*Waqf* Unit)	3 years 5 years
9.	*Majlis Agama Islam Johor* (Johor Islamic Religious Council)	i. Accountant ii. Assistant Director (*Waqf* Unit)	7 years 10 years
10.	*Majlis Agama Islam dan Adat Istiadat Melayu Kelantan* (Kelantan Islamic Religious and Malay Custom Council)	i. Accountant ii. Chief Development Officer	11 years 10 years
11.	*Majlis Agama Islam dan Adat Melayu Terengganu* (Terengganu Islamic Religious Council)	i. Accountant ii. Assistant Secretary (*Waqf* Unit)	10 years 10 years
12.	*Majlis Ugama Islam dan Adat Istiadat Melayu Pahang* (Pahang Islamic Religious and Malay Custom Council)	i. Accountant ii. Economic Affairs Officer (*Waqf* Unit)	8 years 8 years
13.	*Tabung Baitumal Sarawak* (Sarawak Baitulmal Fund)	i. Director (Finance & Resources) ii. Chief Officer (*Zakat* & *Baitulmal*)	15 years 15 years
14.	*Perbadanan Baitulmal Sabah* (Sabah Baitulmal Corporation)	i. Senior Manager (Finance)	5 years
15.	*Majlis Ugama Islam Sabah* (Sabah Islamic Religious Council)	i. Deputy Secretary MUIS	30 years
16.	*Yayasan Wakaf Malaysia* (Malaysia *Waqf* Foundation)	i. Manager (Research and *Awqaf* Division)	-
17.	*Jabatan Wakaf, Zakat dan Haji* (Department of *Waqf*, *Zakah* and *Hajj*)	i. Head, *Wakaf* Division	-
18.	National Audit Department	i. Director, State Sector Audit ii. Selangor Audit Official	- -

Note: The designation refers to the name of the position in the organisations and used throughout the organisation. For instance if the highest position is referred as Secretary, the designation of other positions in the organisation subsequently use the same name of designation, namely, Assistant Secretary (Finance & Account) refers to the position of an accountant.

Based on Table 5.6.3, of 32 interviewees undertaken at SIRCs/*baytulmal* institutions, 29 (90.6%) of them were officers of the Professional and Management category while 3 (9.4%) interviewees were from the Support Group category. The researcher had to interview officers (e.g. Assistant Accountant) in the Support Group category in three SIRCs due to the non-existence of relevant officers in the Professional and Management category. With regard to the experience of interviewees, 16 (50.0%) had served between 5 to 10 years of experience whilst 12 (37.5%) interviewees had beyond 10 years experience. The former were recruited into their organisations as a result of the restructuring initiative in most of SIRCs and the former were already employed by the time the restructuring took place. On the other hand, 2 interviewees had only 3 years experience because the SIRC concerned had just undertook a restructuring programme in 2008 while an accountant who had less than 5 years experienced was appointed by the state government to initiate financial management improvement programmes in the organisation. The Deputy CEO, however, had more than 25 years working as a civil servant.In one case, an Assistant Economic Affairs Officer who had about two years experience was interviewed as he was the only personnel in charge of *waqf* operation in the organisation. SIRCs/*baytulmal* institutions are 'closed' organisations and thus personnel are not deployable in other organisations.

In addition, interviews were undertaken with senior officials of JAWHAR and MWF to obtain their perspectives on the existing *waqf* management and the future planning for *waqf* institutions in Malaysia. The views of JAWHAR as the coordinating agency would be valuable in providing a more rounded information on the *waqf* management in Malaysia. MWF is an agency established by JAWHAR as a 'special-vehicle' organisation to assist in the *waqf* development activities in Malaysia. The interviewed officer of MWF had vast experience in *waqf* activities in Malaysia and was suggested by the senior official of JAWHAR. Furthermore, an interview with the Deputy Auditor General (State Sector) sought to acquire the perceptions and concerns of the NAD on the accountability systems of SIRCs/*baytulmal* institutions and their *waqf* management. These series of interviews were carried out to acquire information on the underlying effectiveness and accountability of SIRCs/*baytulmal* institutions, which the information could not be obtained through the questionnaire survey. In addition, the opportunity was used to assist the researcher in gaining further understanding of the findings from the questionnaire survey and subsequently answer the research questions of the study.

5.6.2.3 The Conduct of Interviews

Each interview commenced with a brief discussion about the objectives of the research and interviewees were assured of the complete confidentiality of their responses. As part of the ethical conduct of data collection, a written consent for an interview and to record the interview was obtained from each the interviewees, which also assured the anonymity of the interviewees in the analyses. Then the interviewees were asked several questions about their employment, including their position in the organisation, how long they had been in it, and their total period of employment in the organisation. They were also asked about the main activities of their employing organisation and the main areas of their responsibilities. The aim of these questions was to a start the interview with non-controversial issues to establish a rapport and help the interviewees feel comfortable. More detailed questions were followed by a series of questions focusing on the performance and accountability issues related to strategic planning, budgeting and budgetary control, performance measurement and financial reporting practices of SIRCs/*baytulmal* institutions and their *waqf* management.The researcher made every effort to make interviewees feel relaxed by allowing them to talk informally. Generally, all interviewees appeared to be very interested and enjoyed in expressing their opinions on the issues raised in the interviews including inherent weaknesses of the present *waqf* management. Most interviews lasted more than one hour, while others lasted more than two hours.

5.6.2.4 Analysis of the Interview Data

As the interviews were semi-structured, analysis of the data benefited from the fact that the interviewees had the freedom to explain their thoughts and experiences regarding the issues related to the overall study topic. Thus, the analysis of interview data needed to be planned and implemented in a manner that ensured the results presented were a fair representation of the underlying body of data collected from the interviews. More importantly, the manner of analysis had to take into account the fact that this study is mainly descriptive in nature.

The cross-case approach suggested by Miles and Huberman (1994) was considered appropriate for the analysis and considerations in analysing interview data in a cross-sectional research design. Cross-case analysis is employed for reasons of enhancing generalisability and deepening understanding and explanation (Miles and Huberman 1994). There were three approaches identified for analysis in the cross-case analysis. First, patterns and characteristics of individual cases or groups of cases under study are preserved throughout analysis. This method advocates a replication strategy whereby a theoretical framework is replicated in successive cases and is known as case oriented analysis. Second, specific variables or themes are the focus of analysis across cases in which individual unique case characteristics and patterns are bypassed or underplayed. This variable oriented is thus concealing the individual case. In these two approaches, details of individual cases were maintained and thus allowing for a more complex analysis to be conducted and specific details can be drawn out. Miles and Huberman (1994) suggested that this enabled researchers to highlight important findings that were not necessarily raised by the majority of the respondents. However, the drawback of this is that the findings remain particular to individual cases and may not apply to others. The variable-oriented method is better for identifying themes and patterns, but less able to extricate the findings that reflect the sophistication of the cases than the case-oriented approach is able to provide. The third approach is the mixed strategy, which combines the case- and variable-oriented approaches in analysing interview data rather than a strict conformance to one of these approaches. This approach was taken in the current study, involving a synthesis of both the case-oriented and variable-oriented analyses, enabling a greater degree of generalisability than the case oriented per se. In addition, interview data was thoroughly explored and analysed, benefiting from the case- oriented approach. Thus, this method is considered suitable to generate results of analysis that are a fair representation of the underlying body of data collected from interviews.

Miles and Huberman (1994) suggested that the interview data analysis itself consists of three concurrent flows of activity: data reduction, data display and the drawing of conclusions. However, before these processes were undertaken, interview data was transcribed to reflected the meaning of the views expressed by each of the interviews. The researcher then read through all the transcribed interviews to obtain general ideas from the interviewees' opinions and expression as well as to contemplate their meanings before coding the textual data. This is followed by the first stage of data analysis that involved coding the transcripts for data reduction purposes. Coding is a prosess of organising the material into chunks or segments of text before bringing meaning to information (Rossman and Rallis 1998). The data reduction involve the` process of selecting, focusing, simplifying and transforming the data that appear in written-up field notes or transcriptions, which were then labelled using a specific term to generate themes. Boyatzis (1998) suggested two methods if generating themes: first is inductively from the raw material information; and second is deductively from theory or prior research. Following the latter method, the main themes for interview data analysis are similar to the issues investigated in the questionnaire survey, issues on the accounting, accountability and effectiveness of *waqf* management in Malaysia, which include strategic planning, budgeting and budgetary practice, performance measurement and financial reporting practices. Nonetheless, coding into themes in such a pre-structured manner where the themes have been pre-determined prior to data analysis raises a risk of conclusions being drawn too early and could be narrow in nature unless research questions are spell out clearly with triangulation of data (Miles and Huberman 1994). Thus the fact that this study has considered these two factors in its research design and specifically in the data collection process, the risks of making narrow and pre-determined conclusions are reduced.

The researcher decided to employ one of the Computer Assisted Qualitative Data Analyis Softwares (CAQDAS), NVivo (Version 8) for the purpose of analysing interview textual data. Bearing in mind that the average length of an interview transcript is about 30 pages, with 1.5 spacing, the use of CAQDAS was particularly useful in organising the interview data and its analysis is efficient (Bringer et al. 2006). Multiple backups and clerical work of labelling of texts to allow tracing back to the original documents are automated in CAQDAS and thus provides a quicker access for coding and retrieving data. However, the use of CAQDAS in the analysis of interview data still require the intellectual task of the researcher as the software itself could not function on its own unless instructed by the researcher. The researcher must still interpret the information as by no means CAQDAS would analyse the data (Bringer et al. 2006). NVivo (Version 8) was chosen for reasons that it is provided by the university and therefore technical supports is accessible. Thus the researcher made considerable reference user manual provided by the Qualitative Research Solutions (QSR) International (http://www.qsrinternational.com/support_getting-started.aspx) when using the Nvivo (Version 8) in the analysis of interview textual data and attending training workshops which were offered by the university.

There were three main processes involved when using NVivo for analysing qualitative data, the transcribed interviews and memos of thoughts developed throughout the study formed a Primary Source Documents (PSD) for the study. These transcribed interviews were imported from word document format (Import Internals). Since each of the transcribed interviews was related to individual research participants, a case was assigned to each of these documents, which is referred as a case for participant of the interview. The next step in the analysis was to create 'Tree Nodes' or themes of the study that will be applied during the coding process. As the main themes for interview data analysis are similar to the issues investigated in the questionnaire, the 'Tree Nodes' were basically consisted of accountability, autonomy, strategic planning, budgeting and budgetary control, performance measurement and financial reporting practices as well as external consultants. NVivo also allows the creation of 'Free Nodes' under each of the 'Tree Nodes', allowing deeper analysis of the textual data in the study. In this regard, Bogdan and Biklen (1982) offered some useful advice on how to develop code names when analysis textual data, which may include setting and context codes, codes based on perspective held by subjects, codes based on subjects' way of thinking about people and objects, process codes, activity codes, strategy codes, relationship and social structure codes, and pre assigned code schemes. This was followed by extracting segments of the PSD into pieces of information, known as a 'quotation', which were deemed important and relevant to the topic under investigation. More importantly, NVivo places the quotations separately from the original document (PSD) as 'self-contained' texts for ease of analysis, but at the same time it allows the researcher to trace them to original documents (PSD) for reference purposes. These extracted quotations were then assigned to relevant free nodes created earlier for them to have some meaning and relevance to the topic studied. In addition, coding stripes (of different colours) can be made visible in the margins of PSD so that the researcher can see, at a glance, which codes have been used where. It is also possible to write personal memos and comments about particular aspects of documents and link these to relevant pieces of texts in different PDSs. A positive note about NVivo is the search facility that helps in the interrogation of data and could increase the accuracy of the investigation (Welsh 2002). The findings from the interview data analysis are presented in Chapter Seven in the form of narrative passage, which include interpretations and quotes.

5.7 Summary

In this chapter, the research objectives, the rationale for the choice of cross-sectional survey design, questionnaire method and interview approach have been provided, and the process of implementing the questionnaire and the conduct of the interviews were described. The research objectives of this study attempted to explore the accounting, accountability and effectiveness of *waqf* management in Malaysian: first, through the questions that relate to the current state of accounting in SIRCs/*baytulmal* institutions. This includes budgetaring and budgetary control as well as financial reporting practices. Second, questions were asked to investigate performance measurements practices in these organisations. Third, questions were also asked to probe the current practice of strategic planning, external consultants and *waqf* management in SIRCs/*baytulmal* institutions. The chapter clearly demonstrates that measures have been taken to ensure the research design and data collection methods match the purposes of the study. The chapter has also described the types of statistical analysis that were undertaken to analyse questionnaire data and the methods to analyse interview data. The chapter has described the use of the SPSS for analysisng the questionnaire data and CAQDAS for analysing the interview data. In this study, NVivo Version 8 was employed in the analysis of the interview textual data. Wherever possible, available options have been examined to ensure the characteristics of the options match the study requirements. The next two chapters, Chapter Six and Chapter Seven present a discussion on the questionnaire survey findings and an analysis of the in-depth interviews respectively.

CHAPTER SIX: ANALYSIS OF THE QUESTIONNAIRE SURVEY

6.1 Introduction

The aim of the current chapter is to discuss the overall responses to the questionnaire survey. The analyses and discussion of the findings are presented on a section-by-section basis according to the rationale of the questionnaire. The second section of this chapter provides details of the background and characteristics of SIRCs/*baytulmal* institutions. Also included in the section is detailed explanation of the types of funding of SIRCs/*baytulmal* institutions. Following on from this, section three presents an analysis and discussion on the issues of autonomy and accountability surrounding SIRCs/*baytulmal* institutions. Section four focuses on the issues of strategic planning practices in SIRCs/*baytulmal* institutions. Section five offers analysis and discussion of budgetary preparation and control practices in these organisations. Section six concentrates on the performance measurement practices and the seventh section discusses the financial reporting practices in SIRCs/*baytulmal* institutions. The use of external consultants is presented in the eighth section, followed by discussions on collaborations and corporatisation/privatisation plans in SIRCs/*baytulmal* institutions. A summary of the findings is presented in the final section of this chapter.

6.2 Organisational Background and Characteristics

As mentioned in Chapter Five, this study focuses on the state of accountability systems and the effectiveness of their operations in State Islamic Religious Councils (SIRCs) that are appointed as the sole trustees of *waqf* assets and properties in Malaysia. These include strategic planning, budgetary preparation and control, performance measurements and financial reporting practices. The study received 36 usable responses resulting in a response rate of 64.3%. The following paragraphs discuss on the organisational background and characteristics of SIRCs/*baytulmal* institutions.

6.2.1 Background Information on SIRCs/*Baytulmal* Institutions

A possible measure of size of an organisation would be the number of employees (Ezzamel 1990; Lewis and Pendlebury 2002) and the amount of operating expenditure. Kahler & Sargeant (2001) used total operating expenditure to study the effect of size on the management costs of charities in the USA. Table 6.2.1 presents a summary of the responses representing the distribution of employees in SIRCs/*baytulmal* institutions. Due to the diversity in the distribution of employees and, more importantly, to facilitate further analysis, responses were categorised as representing small (fewer than 75 employees), medium (between 75 and 149 employees) and large (150 employees and over) SIRCs/*baytulmal* institutions. Accordingly, 18 responses (50.0%) were classified as representing small SIRCs/*baytulmal* institutions, 5 responses (14.0%) represented medium SIRCs/*baytulmal* institutions and 13 responses (36.0%) were from large SIRCs/*baytulmal* institutions. Although it is recognised that these are somewhat arbitrary, the generation of similarly-sized groups facilitates further analysis.

Table 6.2.1: Analysis of Responses for the Distribution of Employees in SIRCs/*Baytulmal* institutions

No. of Employees	**Responses**	
	No	**%**
Small (fewer than 75)	18	50.0
Medium (between 70 and 149)	5	14.0
Large (more than 150)	13	36.0
Total	**36**	**100.0**

A similar procedure was followed to categorise the size of SIRCs/*baytulmal* institutions by actual operating expenditure. Similarly-sized groups were generated for the responses to facilitate statistical analysis. Table 6.2.2 displays the distribution of responses representing small SIRCs/*baytulmal* institutions (less than RM5 million), medium SIRCs/*baytulmal* institutions (between RM5 million and RM10 million) and large SIRCs/*baytulmal* institutions (more than RM10 million) categories. Subsequently, 19 responses (52.8%) were classified as representing small SIRCs/*baytulmal* institutions, 10 responses (27.8%) as representing medium, and 7 responses (19.4%) representing large SIRCs/*baytulmal* institutions.

Table 6.2.2: Analysis of Responses for the Size of Actual Operating Expenditure		
Actual Operating Expenditure (RM million)	**Responses**	
	No	**%**
Small (less than 5)	19	52.8
Medium (between 5-10)	10	27.8
Large (more than 10)	7	19.4
Total	**36**	**100.0**

As the analyses based on the actual operating expenditure and the size of employee did not give significant differences, the study decided to use the actual operating expenditure as a control variable in the analyses.

6.2.2 Types of Funding

Types of funding are an important feature of SIRCs/*baytulmal* institutions as it attributes to the levels of freedom and flexibility in managing their fiscal and managerial organisational operations. Funding has been claimed as one of the long-standing constraints for SIRCs/*baytulmal* institutions to function effectively (Mahamood 2006; Ahmad 2007; Mahamood 2007b; Manat 2007). They argued that financial resources of SIRCs/*baytulmal* institutions were not in proportion to the magnitude of social goods and services expected to be delivered. The limited funding was claimed to be not only affecting the present provision of social goods and services by SIRCs/*baytulmal* institutions but equally have regressive impact on the future advancement of the organisations. Financial provision of state government is the discretionary of respective state government while the Federal government only provides financial assistance to the SIRC of the Federal Territory that is under the purview of the Prime Minister's Department. As a state statutory agency, SIRC is expected to finance its operating expenditure with income generated by the organisations' activities, which primarily consist of management fees for being *zakah* (Islamic taxation) managers, investment income and rental income generated from the *baytulmal* (Islamic Treasury) activities and *waqf* (Islamic Endowment). Donations and contributions from the public are also used to finance the organisational operation. In order to gain insight into the type of funding in these organisations, respondents were invited to indicate the type of funding for their organisations: full or partial funding from federal government, full or partial funding from state governments and self-funding.

Accordingly, the study arbitrarily recognised three major categories of funding for the operations of SIRCs/*baytulmal* institutions: fully-funded, partially-funded and self-funding. The self-funding SIRCs/*baytulmal* institutions receive no financial assistance from either the federal or state governments. In other words, the operations of these SIRCs/*baytulmal* institutions are exclusively self-funded. On the other hand, the fully-funded SIRCs/*baytulmal* institutions receive significant or almost full financial provisions from either the federal government or state governments. Partially-funded SIRCs/*baytulmal* institutions finance a considerable portion of their operations with financial resources generated by their activities and non-repayable grants from either the federal or state governments to finance their operating expenditure. The categorisation of the types of funding was used to facilitate statistical analysis in this study and is expected to elucidate the association of this fundamental feature with the existing accountability systems and their operational effectiveness. The analysis of responses for the types of funding analysed by organisational size is presented in Table 6.2.3.

Table 6.2.3: Analysis of Responses of the Type of Funding by Organisational Size

Types of Funding	**Overall Analysis**		**Size**					
			Small		**Medium**		**Large**	
	No.	%	No.	%	No.	%	No.	%
Fully-Funded	2	5.6	-	-	-	-	2	5.6
Partially-Funded	12	33.3	8	22.2	-	-	4	11.1
Self-funding	22	61.1	11	30.6	10	27.8	1	2.8
Total	**36**	**100.0**	**19**	**52.8**	**10**	**27.8**	**7**	**19.4**

Interestingly, the overall analysis in Table 6.2.3 reveals that more than 60% of responses represented self-funding SIRCs/*baytulmal* institutions while the remainder of 33.3% and 5.6% represented partially- and fully-funded SIRCs/*baytulmal* institutions, respectively. Accordingly, this distribution of responses could also be used as the distribution of the type of funding for SIRCs/*baytulmal* institutions. Interestingly, analysis by organisational size reveals that fully-funded SIRCs/*baytulmal* institutions were also large SIRCs/*baytulmal* institutions (5.6%) while partially-funded SIRCs/*baytulmal* institutions were either small (22.2%) or large (11.1%) in size. The majority of self-funding SIRCs/*baytulmal* institutions were small (30.6%) and medium-sized (27.8%), with a small proportion of them is large in size (2.8%).

6.2.3 Background Information of *Waqf* Management in SIRCs/*Baytulmal* Institutions

This subsection presents background information on the distribution of employees who are involved directly in *waqf* management in SIRCs/*baytulmal* institutions as well as the size of *waqf* resources managed by respective SIRCs/*baytulmal* institutions. According to Mahamood (2006), the number of staff assigned for *waqf* management in SIRCs/*baytulmal* institutions depends on the size of the *waqf* resources vested in them. Based on the data gathered via the questionnaire survey, the number of staff employed for *waqf* management varied between as few as one to as many as more than twenty. Due to the varied distribution of personnel employed by SIRCs/*baytulmal* institutions for the purpose of *waqf* management, the study arbitrarily generated five equal-sized ranges of employee distribution. Such information could give insights into the intensity of *waqf* management in respective SIRCs/*baytulmal* institutions. The analysis of the distribution of employees who were involved in the *waqf* management is presented in Table 6.2.4. Based on the analysis, it can be seen that more than sixty percent of SIRCs/*baytulmal* institutions were employing between five to fifteen staff for the *waqf* management purposes. However nineteen-percent (19.0%) of them employed fewer than five personnel to manage the *waqf* affairs. Another nineteen-percent (19.0%) SIRCs/*baytulmal* institutions had more than twenty employees to take charge of all matters relating to *waqf* in the respective states.

Table 6.2.4: Analysis of the Distribution of Employees in the *Waqf* Management of SIRCs/ *Baytulmal* Institutions		
No. of Employees	**Responses**	
	No	**%**
Fewer than 5	7	19.0
Between 5 and 9	20	56.0
Between 10 and 14	2	6.0
Between 15 and 20	-	-
More than 20	7	19.0
Total	**36**	**100.0**

The study also gathered information on the size of waqf resources managed by respective SIRCs/*baytulmal* institutions, which the analysis is reported in Table 6.2.5. *Waqf* resources in this analysis refer to land, buildings and cash balances. The cash balances include proceeds from the sale of *waqf* assets and properties (*ibdal*), proceeds from the exchange transactions of *waqf* assets and properties (*istibdal*), cash receipts from renting out *waqf* properties and cash *waqf*. In order to facilitate the understanding of *waqf* management in SIRCs/*baytulmal* institutions, the study arbitrarily classified the size of *waqf* resources into five equal ranges of less than RM2.0million, between RM2.0million and RM4.0million, between RM4.0million and RM6.0million, between RM6.0million and RM8.0million, and more than RM8.0million. Based on the analysis, the size of *waqf* resources managed by SIRCs/*baytulmal* institutions varies considerably with the maximum value of RM28,858,300 while the lowest value was incredibly small of RM36. The average value of *waqf* resources managed by each SIRCs/*baytulmal* institutions was RM4,599,320. Interestingly, the vast majority of SIRCs/*baytulmal* institutions (55.6%) were seen to be managing less than RM4.0million of *waqf* resources and only 11.1% of responses indicated the value of *waqf* resources managed by SIRCs/*baytulmal* institutions was worth more than RM8.0million. The present trend in the size of *waqf* resources managed by SIRCs/*baytulmal* institutions could impliedly suggest diverse sophistication of administrative structure as well as the size of manpower of *waqf* management in SIRCs/*baytulmal* institutions (Mahamood 2006). However, it is worth noting that these values may not represent the actual current values of the resources, as a significant number of *waqf* assets were assigned with token values ranging from RM1 to RM10 per unit of assets due to valuation issues.

Table 6.2.5: Analysis of the Size of *Waqf* Resources in SIRCs/ *Baytulmal* Institutions		
***Waqf* Resources* (RM Million)**	**Responses**	
	No	**%**
Less than 2.0	19	52.8
Between 2.0 and 4.0	1	2.8
Between 4.0 and 6.0	12	33.3
Between 6.0 and 8.0	**-**	**-**
More than 8.0	4	11.1
Total	**36**	**100.0**
Total value of waqf resources	**RM64,390,475.00**	
Average value of waqf resources managed by SIRCs/*baytulmal* institutions	**RM4,599,320.00**	
Maximum value of waqf resources managed by SIRCs/*baytulmal* institutions	**RM28,858,300.00**	
Minimum value of waqf resources managed by SIRCs/*baytulmal* institutions	**RM36.00**	

Note: * including cash balances held as *waqf*

6.3 Autonomy and Accountability

As stated in Chapter Three, SIRCs/*baytulmal* institutions are recognised as state statutory agencies established pursuant to state enactments. Primarily, the setting up of statutory agencies is to expedite the accomplishment of government goals and objectives. These agencies are privileged with greater freedom and flexibility in their management operations, including financial management. Thus this section presents analyses of autonomy, accountability and the interaction between these two elements within SIRCs/*baytulmal* institutions as perceived by the senior managers. The analyses of the issues of autonomy precede the examination on accountability matters within SIRCs/*baytulmal* institutions.

6.3.1 Managerial Autonomy

Article 3 of the Malaysian Federal Constitution stipulates that the administrative affairs of Islam, Islamic laws and the Malay customs are at the discretion of state governments. As was pointed out in Chapter Three, the SIRC in each state was established mainly to advise the Ruler on Islamic affairs and Malay customs in the policy-making for Islamic affairs in each state. Executive authority in an organisation represents the power of enforcing policies in organisations. This section of the study attempts to ascertain the level of executive authority of relevant authorities (both internal and external) upon the organisational activities in SIRCs/*baytulmal* institutions. This information will give an insight into the extent of executive authority of relevant authorities toward the operation and direction of SIRCs/*baytulmal* institutions.

Table 6.3.1 on page 185 reveals that the CEO was ranked in the first position (mean=3.50), implying that the CEO has the greatest extent of executive authority in relation to managerial operation and future direction of SIRCs/*baytulmal* institutions. This is followed by the Board of Councils with a mean score of 2.82. As expected, the extent of executive authority afforded to external authorities such as State government (mean=1.90), Federal government (mean=1.13) and the Treasury (mean=1.26) was relatively limited. It is worth noting that, in practice, the active involvement of Board of Councils is apparent in approving managerial and fiscal policies recommended by management team. Since these two authorities represent the top management of SIRCs/*baytulmal* institutions and are actively involved in the decision-making processes of SIRCs/*baytulmal* institutions, the extent of executive authority afforded to them potentially reflects the extent of freedom and flexibilities afforded to SIRCs/*baytulmal* institutions.

The analysis of the executive authority according to the type of fundingdisplayed in Table 6.3.1 shows a significantly different responses for the state governments (p=0.011). State governments were reported to have no authority at all over fully-funded SIRCs/*baytulmal* institutions, which indicate that these SIRCs/*baytulmal* institutions potentially do not receive financial allocations from state governments. However, only thirteen-percent (13%) of the respondents recognised state governments as having substantial or full authority over the activities of SIRCs/*baytulmal* institutions. The majority of respondents of partially-funded SIRCs/*baytulmal* institutions (19.4% for ‘Partial’ and 3.2% for ‘None’) perceived that the state governments have very limited executive authority over their operations. It was not unusual for the state governments to impose budgetary controls on organisations that received their financial support.

However, the accumulated proportions of ‘No’ (32.3%) and ‘Partial’ (28.5%) authority were even larger for self-funding SIRCs/*baytulmal* institutions in comparison to those for partially-funded SIRCs/*baytulmal* institutions. The absence of a financial relationship between state governments and self-funded SIRCs/*baytulmal* institutions could have contributed towards the trend in the relationship. However, the state governments seem to have greater executive authority in the partially-funded SIRCs/*baytulmal* institutions, with thirteen-percent (13%) reported as having substantial or full authority. An analysis by organisational size, however, did not produce any significant difference in responses or highlighting noteworthy trends. Overall, the results suggest that SIRCs/*baytulmal* institutions were afforded with greater freedom and flexibility in carrying out their organisational activities, as reflected by the extent of executive authority being granted to the CEO and the Board of Councils.

Table 6.3.1: Analysis of the Level of Autonomy Afforded to Each Party in Prioritising Organisational Activities															
Categorisation	**Fully-Funded (n=2)**				**Partially-Funded (n=12)**				**Self-Funding (n=22)**				**Overall**		
Level of Autonomy	**None**	**Part**	**Subs**	**Full**	**None**	**Part**	**Subs**	**Full**	**None**	**Part**	**Subs**	**Full**	**Mean**	**Rank**	***Sig. (p)**
Authority	%	%	%	%	%	%	%	%	%	%	%	%			
Yang DiPertua/ CEO (n=36)	-	-	-	5.6	-	2.8	5.6	25.0	-	8.3	22.2	30.6	3.50	1	0.220
Board of Councils (n=34)	2.9	2.9	-	-	-	2.9	17.6	11.8	11.8	17.6	8.8	23.5	2.82	2	0.110
State Government (n=31)	-	-	-	-	3.2	19.4	6.5	6.5	32.3	28.5	6.5	-	1.90	3	**0.011**
Federal Government (n=31)	-	-	-	-	32.3	-	-	-	54.8	12.9	-	-	1.13	5	0.146
Treasury (n=31)	-	-	-	-	22.6	9.7	-	-	51.6	16.1	-	-	1.26	4	0.717
*indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test)															

Table 6.3.2: Analysis of the Level of Authority afforded to SIRCs /*Baytulmal* Institutions for Each Management Activity												
Management Activities	**Level of Authority**											
	None		**Partial**		**Neutral**		**Sub-stantial**		**Full**		**Overall**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Organisational goals and objectives (n=33)	-	-	-	-	1	3.0	8	24.2	24	72.7	4.70	2
Long-term planning (n=32)	-	-	-	-	5	15.6	8	25.0	19	59.4	4.44	7
Annual Budgeting (n=33)	-	-	-	-	-	-	4	12.1	29	87.9	4.88	1
Investment (n=32)	1	3.1	2	6.2	2	6.2	7	21.9	20	62.5	4.34	8
Performance measurement (n=32)	-	-	1	3.1	1	3.1	10	31.2	20	62.5	4.53	5
Performance reviews (n=32)	-	-	1	3.1	1	3.1	11	34.4	19	59.4	4.50	6
Accounting systems (n=33)	-	-	-	-	2	6.1	8	24.2	23	69.7	4.64	3
Staff management (n=33)	-	-	1	3.0	1	3.0	10	30.3	21	63.6	4.55	4

To complement the preceding analysis, the study also examined the level of executive authority afforded to SIRCs/*baytulmal* institutions for each principal management activity, namely, setting organisational objectives, long-term planning, annual budgeting, investments, performance measurement and reviews, accounting system and staff management. These management activities are the focus of the present study. Accordingly, the perception of senior managers who were actively involved in the management operations was obtained by requesting them to rank the extent of executive authority afforded for each principal management activity ranging from 'None' to 'Full' authority. The analysis in Table 6.3.2 on page 196 reports that each principal management activity has a relatively high mean score and that they are comparable to each other (mean=4.34 to 4.88), confirming the earlier finding that SIRCs/*baytulmal* institutions were afforded substantial authority over management activities. The annual budget was ranked in the first place (mean=4.88), indicating that SIRCs/*baytulmal* institutions are afforded the greatest freedom and flexibility in managing the expenditure and raising income to finance their activities. It can be seen that respondents collectively (87.9% for 'Full' and 12.1% for 'Substantial' authority) recognised the very considerable authority afforded towards SIRCs/*baytulmal* institutions in handling budgetary aspects. The Treasury has limited power to affect or influence the financial activities of SIRCs/*baytulmal* institutions (mean=1.26), which include the budgetary system. Budgetary preparation and controls will be addressed later in the respective section on budgeting and budgetary control. At the same time, the authority to set organisational goals and objectives was ranked in second place (mean=4.70), which indicates that SIRCs/*baytulmal* institutions were allowed to establish their roles and future directions (mean=4.64).

With regard to accounting systems, SIRCs/*baytulmal* institutions have considerable authority in developing, maintaining and communicating relevant information to their stakeholders and beneficiaries. Similarly, SIRCs/*baytulmal* institutions were also granted with considerable authority in staff management. This implies SIRCs/*baytulmal* institutions would undertake staff recruitment and promotion as well as staff training. Further, SIRCs/*baytulmal* institutions were afforded flexibility in performance measurements (mean= 4.53) and reviews (mean=4.50), which were imperative in the pursuit of continuous improvement in their operations. Slightly less authority to direct their long-term planning (mean=4.44) and investment (mean=4.34) may be related to the understanding that these operations would be beneficial if they were aligned with the national development agenda such as the five-years Malaysia Plan. The analysis according to the organisational size and types of funding did not produce any significant difference in responses and therefore is not reported here.

6.3.2 Autonomy of *Waqf* Management in SIRCs/Baytulmal Institutions

Waqf management in SIRCs/*baytulmal* institutions forms another important aspect of the study, as SIRCs/*baytulmal* institutions are currently the sole trustees of *waqf* resources in Malaysia. In addition, as pointed out in the preceding paragraphs and in Chapter Three, state governments have the discretionary to administer the religion of Islam and its affairs in Malaysia. The establishment of several Islamic departments and agencies by the Federal government was basically aimed to coordinate and facilitate the management of Islamic affairs in the country. JAKIM was primarily established to coordinate and facilitate the implementation of government policies that were related to the advancement of Islam in Malaysia, while JAWHAR and MWF were created mainly to coordinate *waqf* activities in Malaysia.

This study attempted to examine the extent of the influence of these agencies on the *waqf* management in SIRCs/*baytulmal* institutions. It sought to obtain insights into the extent of recognition by SIRCs/*baytulmal* institutions towards ideas, plans and strategies propagated by the Federal agencies for improving the *waqf* management in Malaysia. In view of this, the study requested respondents to rank the level of influence that federal agencies have towards the *waqf* management in their organisations. The analysis is presented in Table 6.3.3.

Table 6.3.3: Analysis of the Level of Influence by Federal Religious Agencies towards *Waqf* Management in SIRCs/Baytulmal Institutions										
Federal Religious Authorities	**Level of Influence**									
	None		**Partial**		**Sub-stantial**		**Full**		**Overall Rank**	
	No	%	No	%	No	%	No	%	Mean	Rank
Department of Islamic Development Malaysia (JAKIM) (n=30)	15	50.0	15	50.0	-	-	-	-	1.50	3
Department of *Awqaf, Zakah* and *Hajj* (JAWHAR) (n=34)	7	20.6	26	76.5	1	2.9	-	-	1.82	1
Malaysia *Waqf* Foundation (MWF) (n=30)	15	50.0	14	46.7	1	3.3	-	-	1.53	2

As expected, the Federal religious agencies of JAKIM, JAWHAR and MWF have very limited influence on *qf* management in Malaysia, which is consistent with the legal pronouncement of state empowerment on the administrative affairs of Islam and Islamic laws. Although JAWHAR was ranked first in terms of the level of influence (mean=1.82), only 2.9% of responses recognised its substantial influence, while the vast majority of responses (76.5%) only recognised it as having some influences on *waqf* management in SIRCs/*baytulmal* institutions. Further, 20.6% of respondents reported that JAWHAR has no influence at all on *waqf* management in their organisations. The results suggest that the management of SIRCs/*baytulmal* institutions seemed to firmly hold to the legal empowerment to state governments on the administrative affairs of Islam and Islamic laws. Efforts by JAWHAR and perhaps other Islamic agencies set up by the Federal government seem to have very limited impact on *waqf* management in SIRCs/*baytulmal* institutions.

Further, the recently created agency, MWF, was ranked second in the list (mean=1.53). As an associate agency of JAWHAR, MWF is another Federal agency that was expected to work with SIRCs/*baytulmal* institutions in the development of *waqf* resources throughout Malaysia. However, it was an interesting finding having fifty percent of responses indicating ‘none’ for the influence of MWF on *waqf* management in SIRCs/*baytulmal* institutions even though at the time when the survey was conducted, the majority of SIRCs/*baytulmal* institutions had just started collaborating with JAWHAR and MWF to develop *waqf* properties in Malaysia. As anticipated too, JAKIM appeared to have the least influence (mean=1.50) on the *waqf* management in Malaysia as it is mainly responsible for coordinating the advancement of Islam in general. The extent of influence indicates that *waqf* requires an exclusive focus and attention that does not generally fall within its broad responsibilities.

6.3.3 Accountability Issues in SIRCs/*Baytulmal* Institutions

Fundamentally, the accountability relationships in SIRCs/*baytulmal* institutions arise from a relationship involving the 'giving and demanding for reasons of conduct' (Roberts and Scapens 1985). The section presents analyses on the extent of accountability of SIRCs/*baytulmal* institutions towards various authorities in the state and federal accountability framework and means of discharging the accountability. Thus, this study requested respondents to identify the level of accountability their organisations have towards the federal and state authorities. The overall analysis of the level of accountability in Table 6.3.4 revealed that SIRCs/*baytulmal* institutions appear to have stronger accountability towards the State Legislative Assembly (mean=2.12) than the State Treasury (mean=1.74). Accountability relationship between SIRCs/*baytulmal* institutions and the State Legislative Assembly are formal and reflected by laws related to the management of Islam and the financial management of the organisation. On the other hand, the weaker accountability toward the State Treasury could possibly reflect the very restricted financial supports provided by state governments to SIRCs/*baytulmal* institutions. As revealed in Section 6.2.2, only about one-third of these organisations were funded partially by state governments. These SIRCs/*baytulmal* institutions would have to observe financial rules and regulations imposed by the State Treasury. Further, SIRCs/*baytulmal* institutions seemed to have stronger accountability toward the National Audit Department (NAD) (mean=3.06) in comparison to the Public Account Committee (PAC) (mean=2.04), Parliament (mean=1. 48) and the Federal Treasury (mean=1.31). More than 70% of responses reported that SIRCs/*baytulmal* institutions had 'Full' (37.1%) and 'Substantial' (34.3%) levels of accountability toward NAD. All government departments and agencies at all levels are required by the Financial Procedure Acts 1957 to submit their financial statements to NAD for audit purposes.

However, it is interesting to note that PAC was ranked second after NAD (mean=2.04) despite having no explicit relationship with SIRCs/*baytulmal* institutions. The perception of the public that investigations conducted by PAC served as warnings of organisational performance perhaps provide an explanation for the extent of accountability of these organisations toward PAC. In short, there exist different nature and bases of accountability relationships and the strength of each relationship appears to vary between them. This is consistent with the assertion that the context and underlying structure that govern the accountability relationship is subjectively constructed and vary with the context (Sinclair 1995). Understanding the nature and context of each accountability relationship would help personnel to perform their role and responsibilities effectively.

Also displayed in Table 6.3.4 is an analysis of the level of accountability by the types of financial funding with significant differences for Parliament. Interestingly, the results revealed that fully-funded SIRCs and *baytulmal* institutions have discreet 'Full' (6.5%) and 'Partial' (3.4%) accountability towards the Parliament and the Federal Treasury respectively. The results provide an additional support that fully-funded SIRCs/*baytulmal* institutions could be receiving financial supports from the federal government. The lack of accountability of fully-funded SIRCs/*baytulmal* institutions towards the State Legislative Assembly (3.1%) and the State Treasury (3.2%) gave further evidence for the assumption. The extent of accountability towards the Parliament and the Federal Treasury seemed to be suggesting that partially-funded SIRCs/*baytulmal* institutions were receiving financial assistance from state governments. As expected, self-funding SIRCs/*baytulmal* institutions had very limited accountability to State and Federal agencies, with an exception to the NAD.

However, an analysis by the organisational size shows significant differences in the distribution of responses for the State Legislative Assembly (p=0.017) and the NAD (p=0.035), as displayed in Table 6.3.5. Medium and large SIRCs/*baytulmal* institutions seemed to have very limited accountability to the State Legislative Assembly in comparison to small SIRCs/*baytulmal* institutions. One possible reason is that small SIRCs/*baytulmal* institutions could be receiving financial allocations from state governments and therefore has additional commitments toward the State Legislative Assembly.

Table 6.3.4: Analysis of the Extent of Accountability of SIRCs /*Baytulmal* Institutions to State and Federal Authorities analysed by the Type of Funding.																
Categorisation	**Fully-Funded (n=2)**				**Partially-Funded (n=12)**				**Self-Funding (n=22)**				**Overall**			
Level of Accountability:	**None**	**Part**	**Subs**	**Full**	**None**	**Part**	**Subs**	**Full**	**None**	**Part**	**Subs**	**Full**	**Mean**	**Rank**		***Sig. (p)**
Authorities:	%	%	%	%	%	%	%	%	%	%	%	%		**Group**	**Over-all**	
State Level																
State Legislative Assembly (n=32)	3.1	-	-	-	6.2	21.9	3.1	-	9.4	40.6	3.1	12.5	2.12	1	2	0.176
State Treasury (n=31)	3.2	-	-	-	9.7	12.9	6.5	3.2	32.3	25.8	6.5	-	1.74	2	4	0.229
Federal Level																
Parliament (n=31)	-	-	-	6.5	22.6	9.7	-	-	45.2	12.9	3.2	-	1.48	3	5	**0.018**
Federal Treasury (n=29)	-	3.4	-	-	20.7	3.4	6.9	-	58.6	3.4	3.4	-	1.31	4	6	0.087
National Audit Department (n=35)	-	-	-	5.7	2.9	8.6	5.7	14.3	-	17.1	28.6	17.1	3.06	1	1	0.247
Public Accounts Committee (n=28)	-	-	-	3.6	3.6	17.9	3.6	3.6	32.1	14.3	21.4	0	2.04	2	3	0.143

**indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test)

Table 6.3.5: Analysis of the Extent of Accountability of SIRCs/*Baytulmal* Institutions to State and Federal Authorities analysed by the Organisational Size																
Categorisation:	**Small (n=19)**				**Medium (n=10)**				**Large (n=7)**				**Overall**			
Level of Accountability	**None**	**Part**	**Subs**	**Full**	**None**	**Part**	**Subs**	**Full**	**None**	**Part**	**Subs**	**Full**	**Mean**	**Rank**		***Sig.(p)**
Authorities	%	%	%	%	%	%	%	%	%	%	%	%		**Group**	**Over-all**	
State Level:																
State Legislative Assembly (n=32)	3.1	31.2	6.2	12.5	9.4	21.9	-	-	6.2	9.4	-	-	2.12	1	2	**0.017**
State Treasury (n=31)	19.4	25.8	3.2	-	16.1	12.9	3.2	-	9.7	-	6.5	3.2	1.74	2	4	0.701
Federal Level:																
Parliament (n=31)	32.3	16.1	-	-	25.8	3.2	3.2	-	9.7	3.2	-	6.5	1.48	3	5	0.336
Federal Treasury (n=29)	41.4	6.9	3.4	-	31.0	-	3.4	-	6.9	3.4	3.4	-	1.31	4	6	0.279
National Audit Department (n=35)	2.9	22.9	11.4	14.3	-	2.9	17.1	8.6	-	-	5.7	14.3	3.06	1	1	**0.035**
Public Accounts Committee (n=28)	17.9	21.4	7.1	3.6	14.3	3.6	17.9	-	3.6	7.1	-	3.6	2.04	2	3	0.840

**indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test)

In addition, the study also attempted to examine the process of discharging accountability in SIRCs/*baytulmal* institutions via principal management tools. Accordingly, the study invited the senior managers to rank their opinion on the level of importance of each principal management tool for the purpose of discharging the accountability of SIRCs/*baytulmal* institutions. Table 6.3.6 reveals that there was no noticeable preference among the senior managers towards any principal management tool for the purpose of discharging the accountability (means=4.58 to 4.89). More than 60% of them regarded each of the management tools as a 'Very Important' medium for the purpose of discharging accountability in SIRCs/*baytulmal* institutions. The annual budget was ranked in the first position (mean=4.89), indicating its central position in SIRCs/*baytulmal* institutions for accountability purposes. The roles of annual budgets as planning, controlling and communication tools in SIRCs/*baytulmal* institutions (Abdul-Rahman and Goddard 1998) necessitate annual budgets at the centrality position for accountability purposes.

In the second position was the Annual Reports (mean=4.6), which an overwhelming 85.7% of senior managers perceived they were 'Very Important' tool for accountability purposes. As it traditional function, Annual Reports are used to disseminate financial performance information of SIRCs/*baytulmal* institutions to external parties, namely the oversight bodies, legislators, media, beneficiaries and more importantly potential contributors. The diversity of interested parties had call for comprehensive but understandable Annual Reports. Partially- and self-funded SIRCs/*baytulmal* institutions that rely considerably on the public donations and contributions need to be particularly paying attention on the presentation of relevant financial performance information.

Strategic planning (mean=4.63) was ranked in the third position. Strategic planning systematically helps organisations to prioritise restricted resources and efforts to attain organisational goals and objective. It is one of the important elements in the Total Quality Management initiative introduced by the Malaysian government to improve the efficiency and effectiveness of public service deliveries. Thus government departments and agencies are expected to develop strategic planning for all programmes and activities. For instance, SIRCs/*baytulmal* institutions were compelled to develop a strategic planning for the development of *waqf* properties under the Ninth Malaysia Plan.

Although performance measurement and reporting were ranked in the fifth (mean=4.59) and sixth (mean=4.58) position respectively, both of them gradually gained importance in SIRCs/*baytulmal* institutions for accountability purposes. Performance measurement provides a platform for organisations to evaluate their achievements against pre-determined targets while performance reporting furnishes performance information to donors and financiers on the management of resources. The information was essential, particularly to potential donors and financiers in makling decisions for future donations and contributions.

The analysis according to organisational size and types of funding did not reveal any significant difference in responses and there was no noteworthy trends to be reported. This could indicate that the respondents shared similar perception on the importance of the principal management tools as accountability mechanisms.

Table 6.3.6: Analysis of the Level of Importance attached to Management Tools for Accountability Purposes in SIRCs/ *Baytulmal* Institutions												
Management Tools	**Level of Importance**											
	Not Important		**Less Important**		**Neutral**		**Important**		**Very Important**		**Overall Rank**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Strategic Planning (n=35)	-	-	-	-	2	5.7	9	25.7	24	68.6	4.63	3
Annual Budgets (n=36)	-	-	-	-	-	-	4	11.1	32	88.9	4.89	1
Performance Measurement (n=34)	-	-	-	-	1	2.9	12	35.3	21	61.8	4.59	4
Performance Report (n=36)	-	-	1	2.8	-	-	12	33.3	23	63.9	4.58	5
Annual Reports (n=35)	-	-	-	-	-	-	5	14.3	30	85.7	4.86	2

6.4 Strategic Planning in SIRCs/*Baytulmal* Institutions

Strategic planning systemises processes in organisations to respond effectively to the new situation, needs and expectation of stakeholders. It determines where an organisation is going over the following 3-5 years or 5-10 years, how it is going to get there and how it will know if it got there or not. Strategic planning has become one of the essential ingredients in the public sector reforms that aim to improve the efficiency and effectiveness of public service deliveries (Bryson 1988; Siciliano 1996; Crittenden and Crittenden 2000). Strategic planning has also been introduced to the Malaysian public sector organisations in an attempt to improve the quality of public services and increase the productivity of government agencies (Siddiquee 2006a).

The study revealed that more than eighty-percent of responses indicated the existence of strategic planning for operational activities and *waqf* activities while only about forty-percent of respondents indicated for the capital investment activities. The findings suggest that SIRCs/*baytulmal* institutions was committed to fulfil the expectation of the public, in particular, the financial contributors and regulators. Drucker (1988) argued that the increased expectations and demands from the public and society for the efficient use of donations have pressured nonprofit organisations to improve their efficiency and effectiveness in the deliveries. On the other hand, the low percentage of responses for capital investments was expected for SIRCs/*baytulmal* institutions as these organisations generally experience limited financial resources for capital expansion. In fact the existence of strategic planning for capital investment could have been attributed to the latest collaborative arrangements between SIRCs/*baytulmal* institutions and JAWHAR to develop *waqf* properties. The urge to secure financial assistance from the Federal government could have pressured the management of SIRCs/*baytulmal* institutions to formalise their planning activities. It was argued that financial crisis such as a deficit situation could be a compelling reason for organisations to undertake a strategic planning process (Bryson 1988; Siciliano 1996). The analysis by organisational size indicated that small SIRCs/*baytulmal* institutions (31.4%) were more concerned with the capital investment in comparison to medium (5.7%) and large SIRCs/*baytulmal* institutions (8.6%). Perhaps this may have contributed to the considerable response rate of 80.6% for strategic planning of *waqf* properties in SIRCs/*baytulmal* institutions.

The study also examined the approaches adopted by SIRCs/*baytulmal* institutions in carrying out their activities and undertaking their functions. Strategic planning may be adopted as one of the management tools by SIRCs/*baytulmal* institutions to prioritise their restricted financial and human resources in attaining their organisational goals and objectives (Kaplan 2001). However, it is also the public accountability that requires SIRCs/*baytulmal* institutions to address the needs and demands of the public and for this reason they could be adopting other approaches in carrying out their activities. The study requested respondents to indicate the approaches adopted by SIRCs/*baytulmal* institutions, which include the ad-hoc basis and upon directives and requests of superior authorities and respondents were allowed to indicate more than one approach if applicable.

The overall analysis of the approaches employed by SIRCs/*baytulmal* institutions presented in Table 6.4.1 showing that SIRCs/*baytulmal* institutions tend to use a combination of approaches in undertaking their functions and carrying out activities. Respondents indicated that there were more than one approach being adopted by SIRCs/*baytulmal* institutions in undertaking their activities. The results show relatively high rates of responses for both ‘upon request’ and ‘directives’ of 45.4% and 41.7%, respectively. Further, the individual response rate of 16.7% for ‘ad-hoc basis’ appeared to be acceptable but its impact on the organisation’s planning activities may be considerable if it were combined with the responses for ‘upon request’ and ‘upon directives’. If this is a common trend within SIRCs/*baytulmal* institutions, the effectiveness of the strategic planning may be at risk. Redeployment of limited financial and human resources to programmes and activities not included in the strategic planning seemed to be inevitable.

An analysis of the results according to organisational size shows that small SIRCs/*baytulmal* institutions were more concerned in ensuring organisational activities were carried out according to the strategic planning in comparison to the medium and large SIRCs/*baytulmal* institutions. The restriction in the financial and human resources perhaps explains for the results. An analysis by type of funding reveals that self-funded SIRCs/*baytulmal* institutions were more careful in carrying out the activities, with 47.2% adhering to the strategic planning. Further, strategic planning may be used as to communicate with potential financiers or contributors on the expected financial and human resource requirements.

With regard to the time-scale for executing the strategic planning in SIRCs/*baytulmal* institutions, the study requested respondents to indicate the range of time-scales employed by SIRCs/*baytulmal* institutions ranging from the shortest of 1-2 years to more than 10 years. An option of 'Others' is also provided for other time-scales that were not stipulated in the question. The analysis is presented in Table 6.4.2. Overall, the time-scale of 3-5 years appears to be the one most commonly (44.1% responses) employed by SIRCs/*baytulmal* institutions for strategic planning purposes. With limited financial and human resources, most programmes and activities undertaken by SIRCs/*baytulmal* institutions are expected to fall within the 3-5 years time-scale. This shorter time-scale allows performance reviews and follow-ups to be undertaken effectively and also permits these organisations to measure the effectiveness of their programmes and activities.

Table 6.4.1: Analysis of Responses for the Approaches adopted by SIRCs/*Baytulmal* Institutions in undertaking Activities														
Categorisation			**Size**						**Type of Funding**					
Type of Organisation	**Overall Analysis**		**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funding (n=22)**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Strategic Planning	25	69.4	13	36.7	6	16.7	6	16.7	1	2.8	7	19.4	17	47.2
Ad-hoc	6	16.7	3	8.3	1	2.8	2	5.6	1	2.8	1	2.8	4	11.1
Upon Request	16	44.4	6	16.7	5	13.9	5	13.9	1	2.8	5	13.9	10	27.8
Directives	15	41.7	8	22.2	5	13.9	2	5.6	1	2.8	5	13.9	9	25.0

*No. of responses = 36

Table 6.4.2: Analysis of the Range of Time-scales for Strategic Planning Framework by Organisational Size and Type of Funding														
Categorisation	**Overall Analysis**		**Size**						**Type of Funding**					
Time-scale			**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funded (n=22)**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
1-2 years	5	14.7	4	11.8	1	2.9	-	-	-	-	2	5.9	3	8.8
3-5 years	15	44.1	7	20.6	5	14.7	3	8.8	2	5.9	2	5.9	11	32.4
6-10 years	10	29.4	6	17.6	3	8.8	1	2.9	-	-	4	11.8	6	17.6
Beyond 10 years	1	2.9	1	2.9	-	-	-	-	-	-	-	-	1	2.9
Others	3	8.8	-	-	-	-	3	8.8	-	-	3	8.8	-	-
Total	**34**	**100.0**	**18**	**52.9**	**9**	**26.5**	**7**	**20.6**	**2**	**5.9**	**11**	**32.4**	**21**	**61.8**

Furthermore, the range of time-scale is in tandem with Malaysia's medium-term development planning that spans five-year periods. This consistency would not only allow SIRCs/*baytulmal* institutions to benefit financially but also being streamlined within the mainstream development agenda. For instance, most SIRCs/*baytulmal* institutions benefited from the allocation of RM250 million distributed in the Ninth Malaysia Plan for the development of *waqf* properties. On the other hand, more than 30% of responses indicated their organisations employed more than five years of time-scale for the strategic planning purposes that could pose problems in assessing the effectiveness of their programmes and activities.

A non-parametric Kruskal-Wallis test on the time-scale of strategic planning did not produce any significant results. It can be seen that regardless of size, SIRCs/*baytulmal* institutions tended to execute strategic planning within a period of 3-10 years, allowing them to benefit from the national development plans of the federal government.

6.4.1 The Formulation of Strategic Planning

Strategic planning requires inputs from various parties of different expertise and experience in the organisation to assure its effectiveness in meeting the pre-determined organisational goals and objectives. Thus the study invited respondents to indicate the level of participation of various parties, which include the CEO, Heads of Division/Department, Board of Councils, external auditors and Advisory Board during the development stage and the analysis of this is presented in Table 6.4.3. It can be seen that a significant proportion of participation of the CEO (94.4%), Heads of Division/Department (83.3%) and Board of Councils (72.2%) were reported in development stage. The results suggest that there was considerable involvement from both the top and operational levels of management, although in essence the CEO appeared to have the grip over the strategic planning. The strong commitment of the CEO in the formulation of strategic planning is critical as it involved establishing future direction of the organisations and most of the time required strategic decisions by the top management (Ugboro et al. 2011). Apart from this, active participation of the CEO was vital to ensure planning activities were on track and executed according to the initial plan. On the other hand, the active involvement of the operational levels (Heads of Division/Department) would offer inputs on the practical perspectives as they were directly involved with the public and beneficiaries and thus were familiar with their needs and expectations. The inputs were important towards an attainable and realistic strategic planning.

Further, the involvement of Board of Councils at this stage was more on the approval side of the management recommendations, particularly the programmes and activities to be executed in the strategic planning. Siciliano (1997) argued that assigning the strategic planning process to the full board (i.e. Board of Councils) does not facilitate their comprehension of the issues in the strategic planning, may be because of their position as external parties. Instead, Siciliano (1997) suggested to delegate the duties to a executive committee or engage appropriate consultants for strategic planning purposes. In this case, however, the very limited participation of the advisory board (8.3%) and the external auditors (5.6%) suggest that strategic planning are indeed internal affairs and thus requires very minimum involvement from external parties.

Table 6.4.3: Analysis of Responses of Participants in the Planning Stage in SIRCs/*Baytulmal* Institutions

Participants:	Responses	
	No.	%
CEO (n=36)	34	94.4
Head of Division/Department (n=36)	30	83.3
Board of Councils (n=36)	26	72.2
External Auditors (n=36)	2	5.6
Advisory Boards (n=36)	3	8.3

The study also examined the perceptions of senior managers on the importance of fundamental elements of strategic planning in SIRCs/*baytulmal* institutions. Hence, the study asked the senior managers to rank their opinions towards fundamental elements of strategic planning based on the scale ranging from 1 (Not Important) to 5 (Very Important). Table 6.4.4 reveals that there was no notable difference in the mean scores of mission statements (mean=4.71), strategy formulation (mean=4.74), measurable objectives (mean=4.62), communication of missions and objectives (mean=4.59) and regular review of plans (mean=4.35). More than 60% of respondents held that these elements are ‘Very Important’ elements of strategic planning, with an exception for regular review of plans (41.2%). Undoubtedly, senior managers in SIRCs/*baytulmal* institutions perceived that the design stage in strategic planning was very important for their organisations. The ‘strategy formulation’ would help organisations to ascertain and prioritise what an organisation ‘intends to do’, and what it ‘decides not to do’ (Siciliano 1996). In addition, an effective strategy formulation links strategies with mission statements of the organisations, which is the primary reason to having measureable objectives. Cascading information on ‘what to achieve’ and ‘how to achieve’ are imperative in strategic planning. Strategic planning is a commitment of an organisation to achieve its stated missions and thus requires stringent regular reviews to provide a system of check and balance to the overall strategies. A consolidated devotion of efforts from both the top management and the operational levels is pre-requisites to effective strategic planning. The analyses in accordance to organisational size and type of funding, however, did not produce any significant difference in responses and there was no notable trend in the responses. It suggested that respondends shared similar concern for all strategic planning elements.

6.4.2 The Implementation Stage of Strategic Planning

The implementation stage of strategic planning is another critical phase as it actually sees the practical side of the strategy formulated at the earlier stage. The study examined the perception of senior managers on the importance of several fundamental elements to gain insights into the focus and deployment of resources by SIRCs/*baytulmal* institutions when executing strategic planning. The perception of senior managers was analysed and presented in Table 6.4.5. Based on the opinion of senior managers, the top management support was ranked in the first position (mean 4.56) with more than 50% of respondents recognising it as a ‘Very Important’ element during the process despite the relatively unnoticeable difference of perceptions as to the importance of each element (mean scores between 4.34 and 4.56). The results implies the need of the top management to exercises its executive authority in ensuring the implementation of strategic planning is timely and on track as initially planned.

Table 6.4.4: Analysis of the Level of Importance Attached to Elements of the Formulation Stage in Strategic Planning in SIRCs/*Baytulmal* Institutions												
Elements of Strategic Planning	**Level of Importance**											
	Not Important		**Less Important**		**Neutral**		**Important**		**Very Important**		**Overall Rank**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Mission statements (n=34)	-	-	-	-	1	2.9	8	23.5	25	73.5	4.71	2
Strategy formulation (n=34)	-	-	-	-	-	-	9	26.5	25	73.5	4.74	1
Measurable objectives (n=34)	-	-	-	-	1	2.9	11	32.4	22	64.7	4.62	3
Communication of mission and objectives (n=34)	-	-	-	-	1	2.9	12	35.3	21	61.8	4.59	4
Regular reviews of plans (n=34)	-	-	-	-	2	5.9	18	52.9	14	41.2	4.35	5

Table 6.4.5: Analysis of the Level of Importance Attached to Elements of the Implementation Stage in Strategic Planning												
Elements of Implementation Stage	**Level of Importance**											
	Not Important		**Less Important**		**Neutral**		**Important**		**Very Important**		**Overall Rank**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Organise plans into actionable plans (n=31)	-	-	-	-	1	3.2	16	51.6	14	45.2	4.42	3
Defining roles and responsibilities (n=32)	-	-	-	-	1	3.1	16	50.0	15	46.9	4.44	2
Communicating the plans (n=32)	-	-	-	-	2	6.2	17	53.1	13	40.6	4.34	5
Feed-backs and follow-ups systems (n=32)	-	-	-	-	2	6.2	16	50.0	14	43.8	4.38	4
Top management support (n=32)	-	-	-	-	1	3.1	12	37.5	19	59.4	4.56	1

Another crucial element is defining roles and responsibilities (mean=4.44), which was ranked in the second position. The roles and responsibilities of individuals who are involved in the implementation of strategic planning must be clear and communicated to minimise the risks of overlapping, particularly as SIRCs/*baytulmal* institutions have shortages of human resources. The combination of organising plans into actionable plans (mean=4.42), feed-back and follow-up system (4.38) and communicating the plans throughout the organisation (mean=4.34) are essential for the implementation of strategic planning. Failures to focus on any of them may render to the ineffectiveness of the overall strategic planning.

6.4.3 The Monitoring Stage of Strategic Planning

Reviews on strategic planning are essentially undertaken to ensure that the strategic planning is on track. Feed-backs, amendments or improvements and thus follow-ups are crucial to ensure strategic planning is successful and effective. In this study, 91.7% (33 out of 36 responses) indicated that formal reviews on strategic planning were undertaken in SIRCs/*baytulmal* institutions. Although the practice of formal reviews in SIRCs/*baytulmal* institutions was encouraging, it emerged that the reviews were mainly under the control of the top management. More than seventy-percent of respondents recognised the CEO, who represented the top management, as having the principal responsibility to undertake formal reviews in SIRCs/*baytulmal* institutions. This is another key responsibility in which the top management hold a substantial control in SIRCs/*baytulmal* institutions. Only 11.4% of responses recognised the involvement of the Heads of Division/Department, while 14.3% indicated the advisory boards. Interestingly, there was no involvement of the Finance Director/Accountant and internal auditors at all. The laxity in sharing the responsibility of undertaking performance reviews with the operational levels could potentially risk timely rectifications or improvements as they would perceive that they had little responsibility for the performance of strategic planning.

With regard to the follow-up policy, only a modest number of respondents recognised the existence of such policies in operational activities (68.6%) and *waqf* activities (62.9%), while only 45.7% of respondents reported the existence of follow-up policies on capital investment. The noticeable gaps in responses between the existence of formal reviews and follow-ups may be attributed by the laxity in the authority granted to operational levels to undertake performance reviews. As noted earlier, operational levels would perceive that they had little responsibility for the performance when less authority was granted. If this is a prevailing trend in SIRCs/*baytulmal* institutions, it could put the effectiveness of strategic planning at risk.

6.4.4 Strategic Planning of *Waqf* Management in SIRCs/*Baytulmal* Institutions

As far as *waqf* management is concerned, SIRCs/*baytulmal* institutions appeared to have been integrating aspects of *waqf* activities in their strategic planning framework and received substantial attention from the management of SIRCs/*baytulmal* institutions. It was noted that 80.6% of respondents reported the existence of strategic planning of *waqf* activities, while 62.9% recognised the presence of follow-up policies for *waqf* activities too. In terms of formal reviews, the study perceives that such reviews were undertaken by SIRCs/*baytulmal* institutions along with other activities of SIRCs/*baytulmal* institutions. In order to shed some light on the importance of strategic planning towards the *waqf* management in SIRCs/*baytulmal* institutions, the perception of senior managers on the importance of present strategic planning in SIRCs/*baytulmal* institutions on the allocation of *waqf* resources, deliveries of *waqf* benefits and prioritisation in using *waqf* resources was examined. Other aspects of *waqf* management being examined were the performance measurement and the personnel management. The perception of the senior managers was analysed and is presented in Table 6.4.6. The results show a remarkable of more than eighty-percent (80%) of senior managers reckoned that strategic planning was somewhat ‘Important’ to ‘Very Important’ for all aspects of *waqf* management in SIRCs/*baytulmal* institutions. The effectiveness in allocating *waqf* resources was ranked as the first (mean=4.29) and followed by the improvement in the deliveries to beneficiaries and the public (mean=4.23). However, the importance of strategic planning in aligning efforts towards achieving *waqf* objectives (mean=4.13) was ranked in the third place. The prioritising the use of *waqf* resources came fourth (mean=4.10), followed by the use of strategic planning in measuring performance (mean=4.03). In short, strategic planning was perceived to have an important impact towards on the overall *waqf* management in SIRCs/*baytulmal* institutions. When analysed by organisational size and type of funding, however, the results did not produce any significant differences or noteworthy trends.

6.5 Budgeting and Budgetary Control in SIRCs/*Baytulmal* Institutions

Budgeting operations are at the heart of the public sector organisation. The call for greater accountability and performance improvement within the public sector provides the pressures to expand the scope of budgeting and linking it with operational management and performance measurements (Groot and Budding 2008). Similar pressures were felt by the Malaysian public sector and the government launched a performance-based budgeting system known as the Modified Budgeting System (MBS) in the 1990s, shifting from output-focused to performance-based. The MBS was expected to be adopted by all government departments and agencies at both federal and state governments' level. Despite being an important element in the public sector operation, Abdul-Rahman & Goddard (1998) claimed that budgets in SIRCs and *baytulmal* institutions were typically expenditure-oriented and merely involved 'routine' activities of forecasting, controlling and communicating. As noted earlier, SIRCs/*baytulmal* institutions are privileged with greater freedom and flexibility in their fiscal operations. They are not subject to the principles of financial management institutionalised by the Federal government. In order to gain an understanding of the budgeting and budgetary controls in SIRCs/*baytulmal* institutions, the study examined the present state of budgeting and budgetary controls of these organisations. This section presents analyses of the types of budgets, budgetary culture, and budget preparation and budgetary controls, as well the practice of budgeting of the *waqf* management of SIRCs and *baytulmal* institutions.

Table 6.4.6: Analysis of the Level of Importance of Strategic Planning in *Waqf* Management in SIRCs/ *Baytulmal* Institutions													
Operational Effectiveness of *Waqf* Management in	**Level of Importance**												
	Not Important		**Less Important**		**Neutral**		**Important**		**Very Important**		**Overall Rank**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Prioritising the use of *waqf* resources (n=31)	-	-	-	-	6	19.4	16	51.6	9	29.0	4.10	4
Allocating *waqf* resources effectively (n=31)	-	-	-	-	5	13.9	12	38.7	14	45.2	4.29	1
Providing a performance measurement tool (n=30)	-	-	-	-	6	20.0	17	56.7	7	23.3	4.03	5
Aligning efforts towards *waqf* objective (n=31)	-	-	-	-	6	19.4	15	48.4	10	32.3	4.13	3
Improving the effectiveness in *waqf* deliveries to beneficiaries and the public (n=30)	-	-	-	-	5	16.7	13	43.3	12	40.0	4.23	2

6.5.1 Types and Roles of Budgets

The study revealed that 100% of respondents indicated the existence of budgets for expenditure while 97.2% of them reported the existence of budgets for revenues. Both the expenditure and revenue budgets are extremely crucial for SIRCs/*baytulmal* institutions, which the majority of them are self-funded, generating income for their activities and programmes. The expenditure budgets would be informing the expected costs of future activities, and more importantly they form a basis for the revenue budgets in SIRCs/*baytulmal* institutions. The results are expected as each state enactment on the administration of Islam and its affairs requires the preparation of income and expenditure budgets every year. On the other hand, the lower responses of 69.4% for capital budgets suggest that SIRCs/*baytulmal* institutions were less focused on capital expansion. The primary reason for this is perhaps the restricted financial and skilled and non-skilled human resources.

As part of the study, the senior managers were also requested to express their perception towards the functions of budgets in SIRCs/*baytulmal* institutions, which the analysis is reported in Table 6.5.1. The vast majority (73.5%) of the senior managers in SIRCs/*baytulmal* institutions acknowledged the budget as a 'very important' planning tool, which was ranked in the first position (mean=4.62). The function of a budget as a control mechanism (mean=4.53) was in the second place with 58.8% of them recognised a budget as a control mechanism. The use of a budget as planning and controlling mechanism by SIRCs/*baytulmal* institutions is perfectly logical as they have to make it possible with restricted financial resources to deliver the services expected by the public and their beneficiaries. The finding is also consistent with the earlier study undertaken in two SIRCs on the functions of budgets (Abdul-Rahman and Goddard 1998).

However, the function of budgets as performance measurement tool (mean=4.41) was ranked in the third position, with slightly more than 50% of responses viewing it as 'very important'. This is encouraging, provided that the performance measurement goes beyond measuring the output dimensions. Too much focus on measuring the level of spending (output) only may impede the effectiveness of SIRCs/*baytulmal* institutions in delivering their services to the public and their beneficiaries. Furthermore, the lower ranking for other functions of a budget such as coordination (mean=4.24), motivation (mean=4.00) and communication tool (mean=4.00) may be attributed by the perception of 'routine operations' of budgets in SIRCs/*baytulmal* institutions. Overall, it seems that there were no significant changes in the perception of the senior managers with regard to the fundamental functions of budgets in SIRCs/*baytulmal* institutions if compared to the findings of Abdul-Rahman and Goddard (1998) on the function of budgets in similar organisations.

6.5.2 Budgetary Culture and Preparation

An examination on the budgetary culture in SIRCs/*baytulmal* institutions shows that 'bottom-up' culture is predominant (97.0%) in SIRCs/*baytulmal* institutions. This suggests that the operational managers in SIRCs/*baytulmal* institutions are actively involved in the budget operations. It is also interesting to note that one (1) response opted for a top-down budgetary culture in his/her organisation. In an attempt to further understand the 'bottom-up' budgetary culture, the study examined the participation level of various parties (internal and external) in the budget preparation of SIRCs/*baytulmal* institutions. The analysis is reported in Table 6.5.2. As far as the participation of the internal parties is concerned, the Heads of Division/Department was ranked first (mean=4.71) while the Finance Director/Accountant was in second place (mean=4.32). This finding, showing a considerable number of responses of 'Full' participation of the Heads of Division/Department and the Finance Director/Accountant (i.e.71.4% and 64.5% of responses respectively) was very encouraging as inputs of the operational levels are imperative when preparing realistic, but effective, budgets. According to Groot & Budding (2008), budget preparation was one of the operations being delegated to lower-level managers, granting them more autonomy to make operational decisions within their given possibilities. However, there is a need for greater control and less flexibility in some areas if the authority and responsibility could potentially create the risks of 'gaming' in the budget preparation (Holmes 1992). Perhaps it is even riskier if the budgetary system in SIRCs/*baytulmal* institutions does not have performance contract specifying responsibilities and expectations of parties involved in the budget operations. The moderate level of participation by the CEO (mean=4.03) and Board of Councils (mean=3.06) is therefore expected to balance the active involvement of the operating managers. In addition, the creation a budget committee could be advantageous in mediating the gaming situation. The result showing 51.6% of full participation by a budget committee indicated a good development in the budgetary system of SIRCs/*baytulmal* institutions, particularly in striking the right balance between greater control and less flexibility in delegating authority and responsibility.

As expected, however, participation from the external parties in the budget preparation in SIRCs/*baytulmal* institutions was very limited. The majority of senior managers in the study were of the opinion that the Federal Treasury (89.3%), external consultants (82.8%) and State Treasury (58.6%) did not participate at all in the budget preparation processes of SIRCs/*baytulmal* institutions. The results appeared to reinforce earlier findings on the greater freedom and flexibility granted to SIRCs/*baytulmal* institutions in financial management. It has impliedly suggested that the Treasury budgeting system had a restrictive influence on the present state of budgetary system of SIRCs/*baytulmal* institutions. The analyses according to organisational size and type of funding, however, did not produce any significant difference in responses.

6.5.3 Budgetary Control

Budgetary control is another important aspect of budget management as it ensures the attainment of budget objectives. In the case of SIRCs/*baytulmal* institutions, its primary concern is to ensure that revenues of *baytulmal, zakah*, *waqf*, contributions and donations would be effectively used and sufficient to pay for their expenditure. Having realised the importance of budgeting in these organisations, the National Audit Department (NAD) conducts a routine annual ‘Accountability Index’ audit on their budget operations. A lack of budgetary control could lead to a budget deficit and hence the inability to maintain contributions and public confidence (Drucker 1988). Accordingly, the study explored aspects of budget allocation controls, budget reviews and budgetary data reporting.

Table 6.5.1: Analysis of the Level of Importance attached to Budget Functions in SIRCs/*Baytulmal* Institutions												
Budget Function	**Level of Importance**											
	Not Important		**Less Important**		**Neutral**		**Important**		**Very Important**		**Overall Rank**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Planning tool (n=34)	-	-	1	2.9	2	5.9	6	17.6	25	73.5	4.62	1
Motivation tool (n=33)	-	-	1	3.0	8	24.2	14	42.4	10	30.3	4.00	5
Co-ordination tool (n=34)	-	-	-	-	6	16.7	14	41.2	14	41.2	4.24	4
Performance Measurement tool (n=34)	-	-	1	2.9	2	5.9	13	38.2	18	52.9	4.41	3
Control mechanism (n=34)	-	-	-	-	2	5.9	12	35.3	20	58.8	4.53	2
Communication tool (n=34)	-	-	-	-	8	22.2	18	52.9	8	23.5	4.00	5

Table 6.5.2: Analysis of the Level of Participation for Relevant Parties in Budget Preparation													
Participants	**Level of Participation**												
	No		**Partial**		**Neutral**		**Sub-stantial**		**Full**		**Rank**		
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Sub-group	Overall
Internal:													
CEO (n=35)	2	5.7	5	14.3	3	8.6	5	14.3	20	57.1	4.03	3	3
Board of Councils (n=32)	9	28.1	-	-	8	25.0	10	31.2	5	15.6	3.06	5	5
Finance Director/Accountant (n=31)	2	6.5	2	6.5	-	-	7	22.6	20	64.5	4.32	2	2
Head of Division/Department (n=35)	-	-	-	-	-	-	10	28.6	25	71.4	4.71	1	1
Internal Auditor (n=30)	13	43.3	3	10.0	3	10.0	6	20.0	5	16.7	2.57	6	6
Budget Committee (n=31)	5	16.1	2	6.5	3	9.7	5	16.1	16	51.6	3.81	4	4
External:													
Federal Treasury (n=28)	25	89.3	2	7.1	1	3.6	-	-	-	-	1.14	3	9
State Treasury (n=29)	17	58.6	7	24.1	3	10.3	2	6.9	-	-	1.66	1	7
External Consultant (n=29)	24	82.8	1	3.4	1	3.4	2	5.6	1	3.4	1.45	2	8

One of the aspects of budgetary control is the authority pertaining to the budget allocation. The study revealed that the key responsibility of budget allocation in SIRCs/*baytulmal* institutions was shared relatively equal between the Board of Councils (47.2%) and the CEO (44.4%) . The results suggest that decision-makings on budget allocation perhaps were undertaken collectively since the CEO is also a member of the Board of Councils. Meanwhile, an overwhelming majority of 94.4% (34 responses) acknowledged the existence of formal budget reviews in SIRCs/*baytulmal* institutions.

An analysis of the frequency of budget reviews according to organisational size and type of funding is displayed in Table 6.5.3. The results suggest that the majority of SIRCs/*baytulmal* institutions undertook the budget reviews less frequently. A percentage of 17.6% of respondents indicated the reviews were undertaken every six months while 44.1% of them had the reviews every quarterly. It was reported that only 32.4% of respondents indicated a monthly formal review while no response was reported for daily and weekly frequency of budget reviews. The monthly hard-copy printouts normally distributed to departments/divisions may trigger the monthly review while quarterly review, which was the most frequent budget reviews, perhaps associated with the meeting of the *Jawatankuasa Pengurusan Kewangan dan Akaun* (Committee of Financial Management and Accounts)[58] that is held every quarter to oversee the financial management of SIRCs/*baytulmal* institutions. The lack of budget reviews in some SIRCs/*baytulmal* institutions may be attributed to shortages in staff.

When analysed by organisational size, small SIRCs/*baytulmal* institutions appeared to adopt mixed frequency of budget reviews with monthly (17.6%) and half-yearly (17.6%) frequencies in comparison to large and medium SIRCs/*baytulmal* institutions. Small size SIRCs/*baytulmal* institutions have very limited financial resources and thus very cautious in their spending. Most of them adopted stringent budgetary control, including more frequent budget reviews to make sure the actual expenditures always comply with budgeted expenditures.

[58] The creation of the committee is upon the directive issued in the Treasury Circular No.10 (2008). Its primary function is to oversee the financial management aspects of government organisations. Practically, the committee is a platform for the top management of SIRCs and *baytulmal* institutions in exercising its responsibilities to oversee the overall performance of the organisation's financial management.

With regard to the medium of reporting budgetary data in SIRCs/*baytulmal* institutions, 94.4% of responses (34 of 36 responses) indicated that the actual expenditure data was made available in hard-copy print-outs while 25.0% (9 of 36 respondents) stated that the data could also be accessed on-line. In other words, seven respondents suggested that their organisations provided the data on actual expenditure in both medium: on-line access and hard-copy print-outs. Surprisingly, when analysed according to organisational size and the type of funding, the actual expenditure data can be accessed on-line in the small (11.1%) and medium-sized (13.9.8%) organisation with none of the large SIRCs/*baytulmal* institutions provided on-line access to this actual expenditure data. It was also intriguing that these SIRCs/*baytulmal* institutions were partially-funded (2.8%) or self-funding (22.2%).

On the other hand, Table 6.5.4 presents the analysis of responses of the frequency of reporting hard-copy printouts showing a significant number of respondents (80.5%) indicated that the print-outs were delivered on a monthly basis. The analysis according to organisational size and type of funding did not produce any significant difference in the responses. However there were noteworthy trends in terms of organisational size as well as type of funding. It can be seen that large SIRCs/*baytulmal* institutions printed out the actual expenditure data weekly and this perhaps compensated the absence of online budget information in the organisations. Meanwhile, the advantage of having monthly print-outs was to trigger monthly formal budget reviews as mentioned in the earlier paragraphs. However, most of the data processing in the government organisations was undertaken on a monthly basis and thus data reported to the management could be delayed by up to two months (Mohamad 2004). If SIRCs/*baytulmal* institutions adopted the same basis of data processing, there was a concern on the timeliness of the information reported for the purpose of budgetary control. Outdated data on actual expenditure would obscure the function of budgets to control expenditures aligned to the budgeted expenditures. It is particularly critical for SIRCs/*baytulmal* institutions with no on-line access to the expenditure data as there was no possibility to have the report on expenditure data on ‘upon request’ (0%) basis.

Table 6.5.3: Analysis of Responses on the Frequency of Budget Review in SIRCs/*Baytulmal* Institutions by Organisational Size and Type of Funding																
Categorisation	**Overall Analysis**		**Size**						**Type of Funding**							
Frequency of Review			**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funding (n=22)**			
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**		
Daily	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Weekly	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Monthly	11	32.4	6	17.6	3	8.8	2	5.9	2	5.9	3	8.8	6	17.6		
Quarterly	15	44.1	5	14.7	5	14.7	5	14.7	-	-	4	11.8	11	32.4		
Half-yearly	6	17.6	6	17.6	-	-	-	-	-	-	3	8.8	3	8.8		
Yearly	2	5.9	2	5.9	-	-	-	-	-	-	2	5.9	-	-		
Total	**34**	**100.0**	**19**	**55.9**	**8**	**23.5**	**7**	**20.6**	**2**	**5.9**	**12**	**35.3**	**20**	**58.8**		

Table 6.5.4: Analysis of Responses to the Frequency of Budget Print-outs analysed by Organisational Size and Type of Funding														
Categorisation	**Overall Analysis**		**Size**						**Type of Funding**					
Frequency			**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funding (n=22)**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Weekly	1	2.8	-	-	-	-	1	2.8	-	-	-	-	1	2.8
Monthly	29	80.5	17	47.2	8	22.2	4	11.1	2	5.6	8	22.2	19	52.8
Quarterly	5	13.9	1	2.8	2	5.6	2	5.6	-	-	3	8.3	2	5.6
Half Yearly	1	2.8	1	2.8	-	-	-	-	-	-	1	2.8	-	-
Total	**36**	**100.0**	**2**	**5.6**	**12**	**33.3**	**22**	**61.1**	**2**	**5.6**	**12**	**33.3**	**22**	**61.1**

However, the obscurity on the relevance and timeliness of the budgetary data may be alleviated by close monitoring by relevant parties in the organisations. Thus the study attempted to examine the participation level of both the internal and external parties in the budget monitoring of SIRCs/*baytulmal* institutions and the overall analysis is displayed in Table 6.5.5. As far as the internal parties are concerned, the Heads of Division/Department (mean=4.35) and the Finance Director/Accountant (mean=4.21) were ranked in the first and second places respectively, with more than 50% of respondents reporting their full participation in the budget monitoring. The active involvement of these operational managers in budget monitoring is important as this could improve the timing of corrective actions if the spending goes over budget, as they are directly involved in the daily operations. The CEO (mean=4.09), who represents the top management, was ranked in third place, with 47.1% of full participation in the budget monitoring exercises. The results were intriguing as another key responsibility of budget monitoring was shared between the top management and the operational management. This seemed to reflect the sense of belonging toward the budgets, and thus expediting their monitoring responsibilities. The role of budget committee, however, seemed to be less direct, which involved only in the periodical assessment of budget performance rather than 'as and when' budget variances occurred. A similar less direct role may also applicable for the internal audit committee. As expected, the involvement of the external parties in the budget monitoring was very limited. The majority of respondents indicated no participation at all from the Federal Treasury (89.3%) and State Treasury (63.3%) in the budget monitoring. The results appear to be consistent with the earlier finding that SIRCs/*baytulmal* institutions were granted greater freedom and flexibility to manage their fiscal operations.

The analysis of the participation level in budget monitoring by organisational size is presented in Table 6.5.6. The statistical analysis of responses by organisational size and type of funding was conducted based on a full five-point Likert scale ranging from 1 (None) to 5 (Full). For presentational purposes, the responses reported in Table 6.5.9 have been collapsed into three categories of 'No/Partial' (which combines none and partial), 'Neutral', and 'Substantial/Full' (which combines substantial and full). The analysis by organisational size shows significant differences in responses for Board of Councils (p=0.013), internal auditor (p=0.034) and budget committee (p=0.014).

However, the analysis by type of funding did not produce any significant difference in responses.

With regards to budget variances, 42.9% of respondents claimed that the occurrence of budget variances in SIRCs/*baytulmal* institutions was infrequent, while another 25.7% claimed budget variances have never occurred in their organisations. The findings suggest that the serious financial constraints in most SIRCs/*baytulmal* institutions had compelled them to rigidly adhere to the budgeted expenditures. This was despite the need for them to be responsive to the expectations and demands of the public and their beneficiaries. Although adherence to budgets is good in budgetary control, at times it is counterbalanced by its negative effect on the ability of SIRCs/*baytulmal* institutions to deliver their functions effectively.

6.5.4 Budgeting of *Waqf* Activities in SIRCs/*Baytulmal* Institutions

Since *waqf* management is part of the organisational operations of SIRCs/*baytulmal* institutions, the study examined the potential consequences of the current budgeting and budgetary control practices on the *waqf* management. Accordingly, the study requested the senior managers to rank their perception on the importance of current budgeting and budgetary control practices toward each of the element in *waqf* management. These include short- and long-term planning, allocation of resources, and awareness of the concept of 'Value for Money', control of resources, deliveries, and performance evaluation, the analysis of which is disclosed in Table 6.5.8. It can be seen that there was strong agreement among senior managers on the implications of the current budgetary system in SIRCs/*baytulmal* institutions on the *waqf* management. This was shown by the comparative high mean scores for each element of the *waqf* management. In short, it was strongly agreed that the current budgetary system had substantial impact on the overall *waqf* management in SIRCs/*baytulmal* institutions.

Table 6.5.5: Analysis of the Level of Participation of Relevant Parties in the Budget Monitoring													
Participants	**Level of Participation**												
	No		**Partial**		**Neutral**		**Substantial**		**Full**		**Rank**		
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Sub-group	Overall
Internal													
CEO (n=34)	1	2.8	3	8.8	4	11.8	10	29.4	16	47.1	4.09	3	3
Board of Councils (n=33)	4	12.1	5	15.2	11	33.3	11	33.3	2	6.1	3.06	5	5
Finance Director/Accountant (n=34)	3	8.8	2	5.9	2	5.9	5	14.7	22	64.7	4.21	2	2
Head of Division/Department (n=34)	-	-	2	5.9	3	8.8	10	29.4	19	55.9	4.35	1	1
Internal Auditor (n=32)	13	40.6	2	6.2	3	9.4	9	28.1	5	15.6	2.72	6	6
Budget Committee (n=30)	8	26.7	-	-	2	6.7	10	33.3	10	33.3	3.47	4	4
External													
Federal Treasury (n=28)	25	89.3	-	-	2	7.1	-	-	1	3.6	1.29	3	9
State Treasury (n=30)	19	63.3	2	6.7	6	20.0	3	10.0	-	-	1.77	1	7
External Consultant (n=28)	23	82.1	-	-	2	7.1	1	3.6	2	7.1	1.54	2	8

Table 6.5.6: Analysis of the Level of Participation of Relevant Parties in the Budget Monitoring analysed by Organisational Size													
Participants	**Size of Operating Expenditure**												
	Small (n=19)				**Medium (n=10)**				**Large (n=7)**				***Sig.(p)**
	No/ Partial	Neutral	Subs-tantial/ Full	Mean	No/ Partial	Neutral	Subs-tantial/ Full	Mean	No/ Partial	Neutral	Subs-tantial/ Full	Mean	
	%	%	%		%	%	%		%	%	%		
CEO (n=34)	5.6	16.7	77.7	4.00	30.0	10.0	60.0	3.80	-	-	100.0	4.83	0.139
Board of Councils (n=33)	29.4	47.1	23.5	2.82	40.0	30.0	30.0	2.80	-	-	100.0	4.17	**0.013**
State Treasury (n=30)	71.4	14.3	14.3	1.79	60.0	40.0	-	1.90	83.3	-	16.7	1.50	0.641
Federal Treasury (n=28)	83.3	16.7	-	1.33	100.0	-	-	1.00	83.3	-	16.7	1.67	0.405
Finance Director/Accountant (n=34)	22.2	11.1	66.7	3.86	-	-	100.0	4.70	16.7	-	83.3	4.33	0.385
Head of Div/Department (n=34)	5.6	16.7	82.8	4.33	-	-	100.0	4.40	16.7	-	83.3	4.33	0.860
External Consultant (n=28)	76.9	15.4	7.7	1.62	100.0	-	-	1.00	60.0	-	40.0	2.40	0.125
Internal Auditor (n=32)	68.7	12.5	18.7	2.00	30.0	10.0	60.0	3.20	16.7	-	83.8	3.83	**0.034**
Budget Committee (n=30)	31.2	12.5	56.2	3.19	33.3	-	66.6	3.11	-	-	100.0	5.00	**0.014**

*indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test).

Table 6.5.7: Analysis of the Level of Agreement on the Potential Consequences of Current Budgetary Practice on *Waqf* Management in SIRCs/*Baytulmal* Institutions

Potential consequences:	**Level of Agreement ***											
	Strongly Disagree		**Disagree**		**Neutral**		**Agree**		**Strongly Agree**		**Overall**	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Improve the long-term planning of *waqf* activities	1	3.0	-	-	-	-	17	51.5	15	45.5	4.36	7
Improve the operational planning of *waqf* activities	-	-	-	-	-	-	15	45.5	18	54.5	4.55	4
Allocate *waqf* resources effectively	-	-	-	-	-	-	12	36.4	21	63.6	4.64	2
Increase the awareness on the concept of Value for Money	-	-	-	-	2	6.1	14	42.4	17	51.5	4.45	6
Place a greater responsibility for control on *waqf* resources	-	-	-	-	-	-	12	36.4	21	63.6	4.64	2
Improve the effectiveness in *waqf* deliveries to beneficiaries and the public	-	-	-	-	-	-	11	33.3	22	61.1	4.67	1
Provide a performance evaluation tool for *waqf* management	-	-	-	-	1	3.0	15	45.5	17	51.5	4.48	5

* n=33

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6.6 Performance Measurement in SIRCs/*Baytulmal* Institutions

Performance measurement that promotes accountability to stakeholders is one of the pertinent principles in the 'New Public Management' (Kloot 1999). The Malaysian government felt the increasing pressures from the public to improve the efficiency and effectiveness of its delivery systems and enhancing its public accountability. A comprehensive performance measurement system comprising (to name a few) Productivity Improvement Initiative (PMI), Total Quality Management (TQM), and the Modified Budgeting System (MBS) was introduced by the Malaysian government (Mohamad 2004; Siddiquee 2005, 2006a; Xavier 2009). All government ministries, departments and agencies were expected to adopt the performance initiatives. Accordingly, the study attempted to examine the operational effectiveness performance measurement in SIRCs/*baytulmal* institutions. Analyses on the development of performance indicators, performance review practices, principal responsibility for monitoring performance, types of performance indicators used and the reporting of performance information are presented in the section.

At the onset of the section in the questionnaire, respondents were invited to indicate the existence of performance measurement practices in their organisations. Responses to this question were elicited to determine whether further questions on performance measurement practices need to be answered. It was interesting to learn that performance measurement existed in all SIRCs/*baytulmal* institutions (100% responses). The results indicated the seriousness of SIRCs/*baytulmal* institutions in improving their efficiency and effectiveness in delivering their functions, and thus improving their accountability to the public and their beneficiaries.

6.6.1 Performance Indicators

The development of performance indicators is pivotal in performance measurement. In order to have an effective performance measurement system, the development of performance indicators must take into account their multi-dimensional features. The views of all stakeholders, which include the top management, operating managers and the public, particularly the contributors and donors to these organisations, should be taken into consideration when developing performance indicators. In this study, respondents were requested to indicate the participants in the development of performance indicators in their organisation and the analysis is reported in Table 6.6.1 below.

Table 6.6.1: Analysis of Responses for the Participants in the Development of Performance Indicators in SIRCs/*Baytulmal* Institutions

Participants:	**Responses***	
	No.	%
CEO	32	91.4
Head of Division/Department	25	71.4
Board of Councils	8	22.9
External Consultants	1	2.9
Finance Director/Accountant	11	31.4
No party is consulted	-	-

* n = 35

It can be seen that the CEO (91.4%) had the greatest participation in the development of performance indicators in SIRCs/*baytulmal* institutions. The active participation of the Heads of Division/Department (71.4%) is encouraging as they could furnish the practical dimensions of information in the development of performance indicators. However, excessive participation by these operating managers could have a serious impact on the effectiveness of the performance measurement system as they may develop sub-optimal performance indicators that of advantageous to them. In this circumstance, validity of the performance indicators would be doubtful unless these indicators are subject to scrutiny to ensure that they are appropriately selected and in alignment with the organisational objectives rather than their personal objectives. Further, the involvement of Board of Councils (22.9%), though very moderate, could possibly counterbalance the monopolistic authority of the CEO and excessive influence of the operating managers. In addition, the vast experience and diverse background of Board of Councils would offer multidimensional perspectives in the development of performance indicators. Finance Director/Accountant (31.4%) seemed moderately involved in the performance indicator setting process. On the other hand, the very limited occasions of opinion being sought from external consultants (2.9%) was acceptable as the majority of SIRCs/*baytulmal* institutions were self-funding and engaging external consultants would be very costly for them.

As far as the type of performance indicators is concerned, there are two main categories of performance indicators: financial indicators and non-financial indicators. The most common types of financial indicators include profitability and unit cost of output or services while the non-financial indicators category includes quality of output or services and quantity of output or services. In the present study, a notable 86.1 % of respondents suggested that financial indicators were commonly used in SIRCs/*baytulmal* institutions in comparison to non-financial indicators (13.9%). Since SIRCs/*baytulmal* institutions are categorised as public sector organisations and are not likely to carry out profit-making activities, profit-related indicators could be less appropriate performance indicators for SIRCs/*baytulmal* institutions. Although financial indicators are important to identify the economic performance of organisations, charitable contributors would be primarily interested in the utilisation of resources for altruistic rather than economic reasons (Hyndman 1990; Hyndman and Anderson 1998; Kaplan 2001; Jones and Pendlebury 2004). They would be more eager to know if the resources endowed were utilised in accordance to their alms-giving intentions. In the context of SIRCs/*baytulmal* institutions, the use of more non-financial performance indicators would enhance their accountability toward the financial contributors. Adequate verification by the relevant authority to improve the credibility and thus reduce the validity problem of non-financial performance indicators needed urgent attention.

However, this result may be related to the perceptions of senior managers that regarded an annual budget as an important performance measurement tool in SIRCs/*baytulmal* institutions. The vast majority of the senior managers in the study (94.5%) acknowledged that an annual budget was a somewhat important (55.6%) to very important (38.9%) performance measurement tool.

6.6.2 Performance Monitoring

Regular and timely performance reviews are crucial for the effectiveness of performance measurement system. It is also important that those in charge of performance monitoring be independent from the activities being monitored, to improve the credibility of evaluations. Accordingly, respondents were requested to indicate the party being granted the principal responsibility for the overall performance of SIRCs/*baytulmal* institutions from a list comprising the CEO, internal auditors, Finance Director/Accountant, external consultants and Heads of Division/Department.

Table 6.6.2 discloses the analysis of the principal responsibility according to the organisational size and the type of funding. As expected, the principal authority towards the overall performance in SIRCs/*baytulmal* institutions is under the control of the CEO (80.6%). Only 19.4% of respondents felt that the Heads of Department/Division had the responsibility towards the overall performance of SIRCs/*baytulmal* institutions while none of the respondents indicated for the Finance Director/Accountant and internal auditors. The control over this key responsibility indicates that the top management took the lead in performance monitoring and reviews and sought to ensure necessary actions are undertaken in a timely manner. Also as expected, these performance monitoring and reviews may not be out-sourced to external consultants for cost-related reasons.

An analysis of the responses of the key responsibility for the overall performance of SIRCs/*baytulmal* institutions according to organisational size and type of funding reveal that the small- (9.4%) and medium-sized (12.5%) organisations, which were also self-funding (21.9%), appear to delegate this responsibility to the Heads of Department/Division. In small-sized SIRCs/*baytulmal* institutions with less sophisticated organisational structure and limited human resources, there could be less clear of specialisation of duties and responsibilities between the top management and the operational managers. However, in a perfectly structured organisation with sufficient supply of human resources, the sharing of responsibility between the top management and the operational managers in performance monitoring indicates the commitment of the organisation to undertake corrective actions in a timely manner by respective divisions/departments.

Table 6.6.2: Analysis of Responses on the Assignment of Principal Responsibility on Overall Performance in SIRCs/*Baytulmal* Institutions by Organisational Size and Type of Funding

Categorisation	Overall Analysis		Size						Type of Funding					
Principal Responsibility			Small (n=19)		Medium (n=10)		Large (n=7)		Fully-Funded (n=2)		Partially-Funded (n=12)		Self-Funding (n=22)	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
CEO	25	78.1	13	40.6	5	15.6	7	21.9	2	6.2	12	37.5	11	34.4
Internal Auditors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance Director/Accountant	-	-	-	-	-	-	-	-	-	-	-	-	-	-
External Consultants	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Head of Division/Department	7	21.9	3	9.4	4	12.5	-	-	-	-	-	-	7	21.7
Total	**32**	**100.0**	**16**	**50.0**	**9**	**28.1**	**7**	**21.9**	**2**	**6.2**	**12**	**37.5**	**28**	**56.2**

Table 6.6.3: Analysis of Responses on the Frequency of Performance Review analysed by Organisational Size and Type of Funding

Categorisation	Overall Analysis		Size						Type of Funding					
Frequency			Small (n=19)		Medium (n=10)		Large (n=7)		Fully-Funded (n=2)		Partially-Funded (n=12)		Self-Funding (n=22)	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Weekly	1	3.1	-	-	-	-	1	3.1	-	-	1	3.1	-	-
Monthly	10	31.2	5	15.6	4	12.5	1	3.1	1	3.1	2	6.2	7	21.9
Quarterly	12	37.5	5	15.6	2	6.2	5	15.6	1	3.1	4	12.5	7	21.9
Yearly	8	25.0	6	18.8	2	6.2	-	-	-	-	5	15.6	3	9.4
Other	1	3.1	-	-	1	3.2	-	-	-	-	-	-	1	3.1
Total	**32**	**100.0**	**16**	**50.0**	**9**	**28.1**	**7**	**21.9**	**2**	**6.2**	**12**	**37.5**	**18**	**56.2**

Table 6.6.3 reports the analysis of the frequency of performance review in SIRCs/*baytulmal* institutions. It can be seen that the most common frequency of performance reviews in SIRCs/*baytulmal* institutions was the quarterly basis (37.5%) while monthly basis (31.2%) appeared to be in the second position of performance reviews. The trend in the performance reviews can be related to the managerial activities of the organisations that were primarily revolving around annual budgets. The quarterly performance reviews correspond to the frequency of meeting of the *Jawatankuasa Pengurusan Kewangan dan Akaun* (Committee of Financial Management and Accounts). In general, the trend of performance reviews followed the ones of the formal reviews for annual budgets. This result seems to be consistent with the result of an analysis of the perceptions of senior managers with 94.5% of them regarded an annual budget as an important performance measurement tool in SIRCs/*baytulmal* institutions.

When the responses were analysed by size, it seemed that small SIRCs/*baytulmal* institutions were more particular (but not significantly so) about performance monitoring than medium and large SIRCs/*baytulmal* institutions. More than 30% of the respondents from small SIRCs/*baytulmal* institutions indicated they had monthly or quarterly monitoring, with 18.7% of respondents from medium SIRCs/*baytulmal* institutions and 18.7% of respondents from large organisations indicating similar responses. As far as the types of funding were concerned, more than 40% of the respondents from self-funding SIRCs/*baytulmal* institutions indicated they had monthly or quarterly monitoring, while 18.7% of the respondents from partially-funded SIRCs/*baytulmal* institutions and only 6.2% of respondents from fully-funded ones indicated similar responses. Since the trend of performance review was associated with annual budgets, the results shows that small and self-funding SIRCs/*baytulmal* institutions were more particular about performance monitoring is logical. The organisations needed to ensure that their spending would not exceed the budgets due to the inherent financial limitations. It is interesting to note that the weekly performance reviews were carried out by large SIRCs/*baytulmal* institutions which were partially-funded (3.1%). The majority of respondents (6 out of 8 respondents) indicated the annual practice of performance reviews were from small SIRCs/*baytulmal* institutions (18.8%) and most of these were partially-funded SIRCs/*baytulmal* institutions (15.6%). Perhaps shortages in personnel has led to the less frequent performance reviews in these small SIRCs/*baytulmal* institutions.

6.6.3 Performance Reporting

Performance information is one of the important aspects in the discharge of accountability of organisations, including in non-profit organisations (Mayston 1985; Boyne and Law 1991; Miah 1991; Connolly and Hyndman 2004). Hence, the study also examined the medium of reporting performance information in SIRCs/*baytulmal* institutions. In the survey, each respondent was required to identify the frequency of each medium of reporting being used by SIRCs/*baytulmal* institutions for transmitting performance information. The analysis of the medium of reporting by organisational size is displayed in Table 6.6.4. The statistical analysis of responses by organisational size was conducted based on a full five-point Likert scale ranging from 1 (None) to 5 (Most Often). For presentational purposes, the responses reported in Table 6.6.4 have been collapsed into three categories of 'seldom' (which combines 'none' and 'seldom'), 'fairly often', and 'often' (which combines 'often' and 'most often').

It can be seen that performance information in SIRCs/*baytulmal* institutions was predominantly reported in management reports (means: small=4.06; medium=3.90; large=4.50). Since information contained in management reports is primarily used for decision-making purposes, it can be implied that performance information reported in management reports is used for similar purposes. On the other hand, Annual Reports were ranked second for reporting performance information (means: small=3.68; medium=3.44; large=3.50), which essentially served the interest of external stakeholders. Hyndman (1990) argued that performance information contained in Annual Reports was highly regarded by contributors. They were interested in information of whether their contributions were utilised in accordance with their altruistic intentions. Interestingly, SIRCs/*baytulmal* institutions are revealed to make limited usage of websites and mass-media to report their performance to external stakeholders. A significant proportion of responses from small (64.7%) and medium (66.7%) SIRCs/*baytulmal* institutions indicated that they had either seldom or never used websites to report performance information despite having set up their websites. This limited utilisation of their websites for reporting their performance could partly be explained by the lack of expertise in SIRCs/*baytulmal* institutions required to regularly update the information. Further, a significant proportion of responses from small (60.0%) and medium (66.7%) SIRCs/*baytulmal* institutions reported 'None' or 'Seldom' for usage of mass-media for performance reporting purposes, while only 50.0% of responses from large SIRCs/*baytulmal* institutions indicated the use of the medium. The misinterpretations of performance information that regularly arise from mass-media reporting could possibly explain the lack of interest in using the medium to report such information (Connolly and Hyndman 2004).

On the other hand, internal circulars were frequently employed by large SIRCs/*baytulmal* institutions (75.0%) to report their performance information. In these organisations, internal circulars may be used to communicate their achievements to the staff for motivational purposes. Responses on using events /ceremonies to communicate performance information were divided. More than 30% of responses from all sizes of SIRCs/*baytulmal* institutions indicated that they seldom used ceremonies/events to communicate their performance. However, the organisational size and type of funding did not produce any significant differences in responses, but notable trends emerged in the analysis by organisational size. Large organisations tend to transmit their performance information to the members of staff perhaps for motivational purposes. Overall, the trend in performance reporting in SIRCs/*baytulmal* institutions may also be due to satisfaction with the existing reporting practices as reported by Connolly & Hyndman (2004).

Table 6.6.4: Analysis of Responses on the Frequency of Reporting Performance Information by Organisational Size												
Mode of Reporting	Size of Operating Expenditure											
	Small (n=19)				Medium (n=10)				Large (n=7)			
	Seldom	Fair	Often	Mean	Seldom	Fair	Often	Mean	Seldom	Fair	Often	Mean
	%	%	%		%	%	%		%	%	%	
Website (n=30)	64.7	17.6	17.6	2.24	66.7	11.1	22.2	2.22	25.0	75.0	-	2.50
Annual Reports (n=32)	15.8	15.8	68.5	3.68	22.2	11.1	66.7	3.44	-	50.0	50.0	3.50
Internal Circularisation (n=28)	63.3	20.0	26.7	2.53	77.7	-	22.3	2.11	-	25.0	75.0	3.75
Management Reports (n=32)	11.1	5.6	83.3	4.06	-	30.0	70.0	3.90	-	-	100.0	4.50
Ceremonies/Events (n=29)	43.8	18.8	37.4	2.81	33.3	55.6	11.1	2.78	50.0	-	50.0	3.00
Mass Media (n=28)	60.0	33.3	6.7	2.07	66.7	22.2	11.1	2.00	50.0	-	50.0	2.75

6.7 Financial Reporting Practices

Traditionally, the basic objectives of financial reporting in public sector are to provide useful information which will assist uses in making economic decisions and allowing them to assess the organisation’s financial position. Simply, public reporting is important to the organisation as it helps to build public confidence. It is regarded as a proactive management tool to strengthen the organisation by improving its standing with the public at large (Lee 2004) and are highly regarded by contributors (Hyndman 1990). Timely, relevant, transparent and understandable reporting can offer the contributors, donors, beneficiaries and the public a greater insight into the activities and performance of SIRCs/*baytulmal* institutions. In the case of SIRCs/*baytulmal* institutions, respective state enactments require these organisations to prepare relevant financial accounts and Annual Reports, which later to be submitted to the Auditor General for audit purposes. Accordingly, this section presents analyses of financial reporting practices in SIRCs/*baytulmal* institutions covering the constituents of Annual Reports and the disclosure practices, frequencies and medium of reporting fundamental financial information, regulatory framework of accounting operations, and the financial reporting practices of *waqf* activities.

6.7.1 Annual Reports

As argued by Ijiri (1974), the basic purpose of the preparation of the annual reports is to discharge the organisations’ public accountability and stewardship over assets and resources entrusted to them. Essentially, Annual Reports should consist of pertinent information on assets and resources entrusted to the organisations, how they were expended during the year and the balance of each fund deployed at the end of the period, which are summarised in appropriate statements of accounts. In the context of SIRCs/*baytulmal* institutions, most state enactments make specific reference on the applicability of the Statutory Bodies (Accounts and Annual Reports) Act 1980 pertaining to the preparation and submission of the statement of accounts and Annual Reports.

Accordingly, the study first examined the constituents of the Annual Reports in SIRCs/*baytulmal* institutions to gain an understanding of disclosure practices in these organisations. The study invited senior managers to identify the financial statements that were reported in the annual reports of their organisations, which may include Receipts and Payments Accounts, Income and Expenditure Accounts, Cash Flow Statements, Balance Sheets, Notes to the Account and Statement of Assets and Liabilities. The analysis is presented in Table 6.7.1. Overall, only the Income and Expenditure Account (100%) appears to be included in the Annual Reports of all SIRCs/*baytulmal* institutions. Mandatory financial statements required by the Financial Reporting Standard (FRS 101) but were not included in the Annual Reports were Cash Flow Statement (91.7%), Balance Sheet (88.9%) and Notes to the Accounts (72.2%). The responses signal a potentially serious deficiency in the financial accountability resulting from inadequate financial reporting. Similar findings on the weaknesses of financial reporting practices in several of these organisations were reported in earlier studies (Mohamed et al. 2006; Daud et al. 2011). From another perspective, the response rates could be attributed to the nature of the respondents some of whom have little direct involvement in the preparation of Annual Reports and thus have less familiarity with the structure and constituents of the statements.

However, the inclusion of the Receipts and Payments Accounts (69.4%) and Statement of Assets and Liabilities (52.8%) in Annual Reports indicated positive efforts of SIRCs/*baytulmal* institutions to report financial information in less complex but understandable presentations. The Receipts and Payments Accounts simply shows all proceeds and expenses on a cash basis, while the Statement of Assets and Liabilities reports on how the resources could meet liabilities. These financial statements would be particularly helpful to help the disparate stakeholders who have little knowledge of accounting to understand complicated financial statements.

Table 6.7.1: Analysis of Responses on the Constituents of Annual Reports in SIRCs/Baytulmal Institutions by Organisational Size and type of Funding																
Categorisation	**Overall Analysis**		**Size**						**Type of Funding**					
Statement of Accounts			**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funding (n=22)**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Receipts and Payments Account (n=36)	25	69.4	13	36.1	9	25.0	3	8.3	2	5.6	8	22.2	15	41.7
Income and Expenditure Account (n=36)	36	100.0	19	52.8	10	27.8	7	19.4	2	5.6	12	33.3	22	61.1
Cash Flow Statement (n=36)	33	91.7	17	47.2	10	27.8	6	16.7	2	5.6	12	33.3	19	52.8
Balance Sheet (n=36)	32	88.9	15	41.7	10	27.8	7	19.4	2	5.6	10	27.8	20	55.6
Notes to the Account (n=36)	26	72.2	11	30.6	9	25.0	6	16.7	2	5.6	8	22.2	16	44.4
Statement of Assets and Liabilities (n=36)	19	52.8	7	19.4	6	16.7	6	16.7	2	5.6	6	16.7	11	30.6

When analysed by organisational size, the deficiencies in the reporting of the Cash Flow Statements, Balance Sheets and the Notes to the Accounts seemed to occur mainly in small SIRCs/*baytulmal* institutions (i.e. three SIRCs/*baytulmal* institutions for Cash Flow Statements, four SIRCs/*baytulmal* institutions for Balance Sheets and ten SIRCs/*baytulmal* institutions for the Notes to the Accounts). The situation could be attributed to less sophisticated organisational structure and limited financial as well as human resources. Small SIRCs/*baytulmal* institutions experiencing acute financial resources potentially do not hire an accountant or personnel with equivalent qualification for reasons of high remuneration costs. Vague job specifications and thus overlapping of responsibilities among personnel in small SIRCs/*baytulmal* institutions may also contribute to the deficiency in the reporting (Mahamood 2006). Surprisingly, one large SIRC/*baytulmal* institution also appeared not reporting the Cash Flow Statements and the Notes to the Accounts in the Annual Reports. Two of these partially-funded organisations did not report their Balance Sheets while another four of them failed to include Notes to the Accounts in Annual Reports. The self-funded SIRCs/*baytulmal* institutions were lacking in the reporting of the Cash Flow Statements (three), Balance Sheet (two) and Notes to the Accounts (six). As pointed out earlier, the lack of knowledge and inadequate training in financial reporting amongst some senior managers is perhaps a possible explanation for the finding.

Apart from the mandatory financial information disclosure requirements, voluntary disclosure of descriptive information in Annual Reports could offer greater insights into the programmes and activities of SIRCs/*baytulmal* institutions, and equally important was their annual performance. Both Kaplan (2001) and Torres & Pina (2003) concurred that the effectiveness and efficiency of a non-profit organisation should also be measured by how effectively and efficiently they meet the expectations of contributors and beneficiaries. In general, SIRCs/*baytulmal* institutions are entrusted to hold and administer more than one fund and thus are expected to account for the management of the individual fund in accordance with their respective terms. Thus, the study explored the disclosure practices for the funds held by SIRCs/*baytulmal* institutions, as well as descriptive information of the current and future activities, which were asked about in Questions 2 to 4 in Section 5 (Financial Reporting Practice) within the questionnaire. Additional information on the assets and liabilities of *waqf* was enquired about by Question 5. The analysis is disclosed in Table 6.7.2.

Table 6.7.2: Analysis of the Disclosures of Additional Information in SIRCs/Baytulmal Institutions by Organisational Size and Type of Funding														
Categorisation	**Overall Analysis**		**Size**						**Type of Funding**					
Additional Disclosure			**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funding (n=22)**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Separate disclosure on the Revenues/Expenditure based on funding types (n=36)	35	97.2	18	50.0	10	27.8	7	19.4	2	5.6	11	30.6	22	61.1
Descriptive information of the reporting year's activities (n=34)	30	88.2	16	47.1	10	29.4	4	11.8	2	5.9	10	29.4	18	52.9
Descriptive information of the future year (s) (n=34)	17	50.0	10	29.4	3	8.8	4	11.8	2	5.9	5	14.7	10	29.4
Separate disclosure of *waqf* assets and/or liabilities (n=33)	22	66.7	8	24.2	9	27.3	5	15.2	2	6.1	7	21.2	13	39.4

It can be seen from the analysis that an overwhelming 97.2% of responses indicated that the Statement of Revenues and Expenditures in SIRCs/*baytulmal* institutions were reported according to the type of funds. This fund reporting could offer a greater insight into ways the resources were expended and the extent of income generated by each type of fund. Although this information would be helpful to relevant stakeholders to evaluate how moneys and resources were deployed to various funds, SIRCs/*baytulmal* institutions also need to be careful in the presentation of such information since their stakeholders are highly disparate in knowledge and expectations. When analysed by organisational size and type of funding, the only SIRC/*baytulmal* institution that was not reporting the Statement of Income and Expenditure by funds was a small SIRC/*baytulmal* institution that received partial financial support from federal/state governments.

With regards to descriptive information, the study invited respondents to indicate the inclusion of information of past achievements and future activity in Annual Reports. The inclusion of non-financial information, including those of qualitative nature facilitates users' interpretation activities by augmenting the usefulness of information reported in the financial statement (Miah 1991). It is revealed that a considerable number (88.2%) of respondents reported the disclosure of descriptive information of the reporting year in their organisations. However, only 50.0% of responses indicate the disclosure of information on future plans and activities in Annual Reports of SIRCs/*baytulmal* institutions. Although the reporting of the current year's activities was encouraging, the trend for the future year could not allow performance comparison to be undertaken. Furthermore, lack of descriptive information on future plans and activities would mean that contributors were less informed on the revenue requirement for the ensuing period. When analysed in accordance with the organisational size, it was revealed that the majority of the non-reporting SIRCs/*baytulmal* institutions were the small ones, with only a few of them being medium and large SIRCs/*baytulmal* institutions. Similar reasons on the sophistication of the organisational structure and the limited supply of financial and human resources perhaps explain the state of financial reporting in SIRCs/*baytulmal* institutions.

An analysis according to type of funding reveals that self-funding SIRCs/*baytulmal* institutions dominated the non-reporting of the descriptive information. The trend is paradoxical for self-funded SIRCs/*baytulmal* institutions as they should be providing more information on their activities and performance. Additional disclosures on past performance and future plans may enhance their attractiveness to existing and potential donors (Connolly and Hyndman 2004). Moreover, the vast majority of the contributors, donors, beneficiaries and the public in general are more interested in the achievement of their altruistic intentions than economic performance presented by the financial data. In the case of information on *waqf* assets and liabilities, 66.7% of the respondents indicated that the Annual Reports of their organisation disclosed the information distinctively in the Annual Reports. The moderate disclosure of the descriptive information in SIRCs/*baytulmal* institutions could partly be contributing to the less than encouraging rate of *waqf* contributions as well as the creation of new *waqf*.

6.7.2 Reporting Fundamental Financial Information

The reporting of fundamental financial information such as revenues, expenditures, cash flows, assets and liabilities are largely to help users to make informed judgements about the financial performance and position of the reporting entity. Management reports and internal circulars are employed primarily to transmit this information to internal parties such as the management team and personnel. Conversely, websites, ceremonies or events and mass media tend to be employed by organisations to disseminate relevant financial information to the wider stakeholders outside the organisation. SIRCs/*baytulmal* institutions were criticised for lacking transparency in their management (Manat 2007). Accordingly, the study attempted to examine the various media employed by SIRCs/*baytulmal* institutions to transmit fundamental financial information as stakeholders may evaluate the extent of accountability based on the reporting of accounting information (Carnegie and West 2005). More than 85% of respondents claimed that data on revenues, expenditures, cash flows, assets and liabilities were reported in management reports, while only 8.8% of respondents indicated the reporting of such information in internal circulars.

The result suggests that such information was primarily used by the management team for managerial decision making purposes and there very limited for motivational purposes. Meanwhile, SIRCs/*baytulmal* institutions seemed to prefer using ceremonies/events to disseminate information on expenditures (23.5%) and revenues (19.4%) to stakeholders due to the sensitive nature of the data. Direct communication with stakeholders could minimise confusion about the information. Perhaps for this reason too that only 11.8% of responses stated that revenues and expenditures were reported in the mass media while information on cash flows, assets and liabilities were not reported at all in the mass media. Surprisingly, the use of websites for reporting fundamental financial information was not encouraging in SIRCs and *baytulmal* institutions either. SIRCs/*baytulmal* institutions did not make extensive use of their websites to report revenues (13.9%), expenditures (13.9%), cash flows (5.9%), assets (0%) and liabilities (5.9%). The shortage in the expertise among members of the staff for maintaining the website may be the valid explanation for the trend, but operating in a lesser competitive environment may also be a possible reason for the trend.

Another aspect of reporting being examined in the study was the frequency of reporting the financial statements in SIRCs/*baytulmal* institutions. Regular reporting of financial information is vital in increasing the financial transparency, which then lead to informed decision makings (Bale and Dale 1998). Accordingly, respondents were requested to choose the frequency of reporting the Receipts and Payments Accounts, Income and Expenditure Accounts, Balance Sheets, Cash Flow Statements, Statement of Assets and Liabilities and Statement of Changes in the Funds on a scale of 1 (Monthly) to 4 (Yearly). Table 6.7.3 reveals more than 50% of the respondents indicated a monthly frequency of reporting the Receipts and Payments Accounts (65.7%) and Income and Expenditure Accounts (57.1%). Balance Sheets (45.7%) and Cash Flow Statements (32.4%) also appeared to have the highest percentage of responses for the monthly frequency of reporting. Largely financial information contained in these financial statements is required by the management team for the purposes of decision-making, and thus making these financial statements part of the management reports. As in the case of budgetary control data, the information reported to the management team could in fact delayed by two-months due to the monthly data processing cycle in SIRCs/*baytulmal* institutions. The lack of timeliness in reporting the information could impede the effectiveness of decision making in these SIRCs/*baytulmal* institutions. For instance, the less frequent reporting of the liquidity performance via Cash Flow Statements (i.e. only 32.4% for monthly frequency) would have a compounding effect on the financial management of the SIRCs/*baytulmal* institutions. Although responses of the frequency of reporting the Statement of Assets and Liabilities and Statement of Changes in the Funds were divided, the yearly frequency seems to have the highest percentage of responses (32.4% and 56.2% respectively).

Table 6.7.3: Analysis of Responses on the Frequency of Reporting Financial Statements in SIRCs/Baytulmal Institutions

Financial Statements	Frequency of Reporting								
	Monthly		Quarterly		Half-Yearly		Yearly		Mean
	No.	%	No.	%	No.	%	No.	%	
Receipts and Payments Accounts (n=35)	23	65.7	7	20.0	4	11.4	1	2.9	1.51
Income and Expenditure Accounts (n=35)	20	57.1	8	22.9	4	11.4	3	8.6	1.71
Balance Sheets (n=35)	16	45.7	7	20.0	4	11.4	8	22.9	2.11
Cash Flow Statements (n=34)	11	32.4	8	23.5	6	17.6	9	26.5	2.38
Statement of Assets and Liabilities (n=34)	9	26.5	7	20.6	7	20.6	11	32.4	2.59
Statements of Changes in Funds (n=32)	6	18.8	4	12.5	4	12.5	18	56.2	3.06

6.7.3 Regulatory Framework for Accounting Operations

Legal stipulations, accounting standards and financial management guidelines issued by relevant authorities prescribe treatments and presentations of financial information with the aim of achieving true and fair of financial reporting, as well as allowing comparative assessment among reporting entities. Abdul-Rahman and Goddard (1998; 2003) claimed that the deficiency in the regulatory framework of accounting for Islamic institutions such as SIRCs/*baytulmal* institutions contributed to the lack of sophistication in the accounting operations of these organisations. Thus the study investigated the extent of reference that SIRCs/*baytulmal* institutions made to the Treasury Instructions (TIs), Statutory Bodies (Accounts and Annual Reports) Act 1980, Government Accounting Standards (GAS), Financial Reporting Standards (FRS), *Waqf* Accounting Guidelines and internal accounting guidelines as regulatory prescriptions.

Accordingly, the study requested respondents to indicate the degree of reference made to each of the financial management regulations and guidelines, based on a five-point Likert scale of 1 (Not Significant) to 5 (Very Significant).

The overall analysis is presented in Table 6.7.4. It can be seen that the Statutory Bodies (Accounts and Annual Reports) Act 1980 (mean=4.36) was ranked in the first position as the reference for the accounting prescriptions in SIRCs/*baytulmal* institutions. This seems to be consistent with the state enactments that adopted the Acts for the general provisions on the preparation of accounts and Annual Reports. The FRS was ranked second (mean=4.28), with more than 85% of responses (46.9% for 'Very Significant' and 40.6% for 'Significant') suggesting that the financial reporting in SIRCs/*baytulmal* institutions was greatly influenced by commercially-oriented accounting standards. The TIs that generally set procedures on internal control systems and budget management of the public sector was ranked in the third position (mean=4.24) while internal accounting guidelines were ranked in the fourth position (mean=4.14). However, the relatively weak reliance on GAS (mean=3.16) and *Waqf* Accounting Guidelines (mean=3.07) was expected. Although SIRCs/*baytulmal* institutions adopted the accrual basis of accounting, the organisations may have to be selective in adopting the prescriptions by FRS as they have different emphasis in activities, functions and objectives from commercial entities. This accrual basis also suggested the inappropriateness of GASs that are cash-oriented accounting standards for accounting operations of SIRCs/*baytulmal* institutions. Although TIs are obligatory for the public sector, SIRCs/*baytulmal* institutions may only apply relevant directives that are applicable to their organisational operations. The *Waqf* Accounting Guidelines that is relatively recent has no enforceable authority and in some SIRCs/*baytulmal* institutions, its adoption may require an approval from higher authorities. The results suggest that these organisations are still lacking in the regulatory framework of accounting.

Table 6.7.4: Analysis of the Level of Reliance attached to Financial Management Regulations/Guidelines

Financial Management Regulations/ Guidelines	Level of Reliance											
	Not Significant		Less Significant		Fairly Significant		Significant		Very Significant		Overall	
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	Rank
Treasury Instructions (n=34)	-	-	2	5.9	5	14.7	10	29.4	17	50.0	4.24	3
Statutory Bodies Act 1980 (n=33)	-	-	1	3.0	4	12.1	10	30.3	18	54.5	4.36	1
Government Accounting Standards (n=31)	2	6.5	7	22.6	10	32.3	8	25.8	4	12.9	3.16	5
Financial Reporting Standards by MASB (n=32)	1	3.1	-	-	3	9.4	13	40.6	15	46.9	4.28	2
Waqf Accounting Manual by JAWHAR (n=30)	4	13.3	4	13.3	11	36.7	8	26.7	3	10.0	3.07	6
Internal Accounting Guidelines (n=29)	-	-	-	-	6	20.7	13	44.8	10	34.5	4.14	4

6.7.4 Financial Reporting Practices of *Waqf*

It is the public accountability of SIRCs/*baytulmal* institutions to report relevant information with regard to the activities and performance of *waqf* under their trusteeship. SIRCs/*baytulmal* institutions have greater freedom and flexibility to mobilise the charitable *waqf* (*waqf khairy*) as there is no restriction or specification on the use of the property endowed and the income generated therein as well as the beneficiaries who shall enjoy the benefits (i.e.usufruct) of the property endowed. However, SIRCs/*baytulmal* institutions have to observe the terms and conditions stipulated for both *waqf ahli* and *waqf khas*. The endowed properties under these categories and the income generated by these types of *waqf* shall be used for the stipulated terms and beneficiaries.

The result of the disclosures practices of *waqf* assets and liabilities showed that slightly more than 65% of respondents (22 out of 33 responses) indicated that the information of *waqf* assets and liabilities were distinctively reported in the Annual Reports of SIRCs/*baytulmal* institutions. An examination on the type of financial statements prepared for *waqf* activities was conducted, which the analysis is presented in Table 6.7.5. As expected, the overall results show a considerable variation in the types of financial statements for reporting *waqf* activities. A substantial 85.7% of respondents (24 out of 28 respondents) indicated the reporting of the Receipts and Payments Accounts while only 28.4% (8 of 28 respondents) recognised the reporting of the Statement of Financial Activities. The results indicate that the receipts and payments are predominantly reported in an aggregate manner (Receipts and Payments Accounts) while the Statement of Financial Activities made clear distinction between restricted and unrestricted *waqf* when reporting the receipts and payments. Moreover, *waqf* assets and liabilities were most likely being reported on the balance sheet (60.7%) than in the Statement of Assets and Liabilities (46.4%). Beneficiaries and founders are perhaps more keen to have information of the resources owned or of money owed (assets) and money owed to others (liabilities), as should be reported in the Statement of Assets and Liabilities. The information informed them on the financial capacity of the organisations entrusted with their assets and other resources. Interestingly, only 50% of responses indicated the preparation of the Cash Flow Statements for *waqf* while merely 14.8%

stated the preparation of the Statement of Changes in the Funds. Unclear ownership interest, ambiguous objectives, absence of organisational culture habit of efficient services and the absence of profit as an indicator of successful management of resources contribute to diverse financial reporting practice for non-profit making organisations (Torres and Pina 2003). When analysed by the organisational size, small SIRCs/*baytulmal* institutions appear to lead in the preparation of financial statements for *waqf*, except for the Statement of Financial Activities and Statements of Changes in the fund. With regards to the type of funds, self-funded SIRCs/*baytulmal* institutions took the lead in the overall preparation of financial statements for *waqf*. Surprisingly though, fully-funded SIRCs and *baytulmal* institutions appeared not reporting the Cash Flow Statements or Statements of Changes in the Funds. Statements of Changes in the Funds were only prepared by small SIRCs/*baytulmal* institutions.

Table 6.7.5: Analysis of Responses on the types of Financial Statements for *Waqf* in SIRCs/Baytulmal Institutions by Organisational Size and Type of Funding

Financial Statements	Overall Analysis		Size						Type of Funding					
			Small (n=19)		Medium (n=10)		Large (n=7)		Fully-Funded (n=2)		Partially-Funded (n=12)		Self-Funding (n=22)	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Receipts and Payments Accounts (n=28)	24	85.7	11	39.3	7	25.0	6	21.4	2	7.1	8	28.6	14	50.0
Balance Sheets (n=28)	17	60.7	7	25.0	4	14.3	6	21.4	2	7.1	5	17.9	10	35.7
Statement of Financial Activities (n=28)	8	28.6	2	7.1	3	10.7	3	10.7	2	7.1	1	3.1	5	17.9
Statement of Assets and Liabilities (n=28)	13	46.4	7	25.0	2	7.1	4	14.3	1	3.6	5	17.9	7	25.0
Cash Flow Statements (n=28)	14	50.0	7	25.0	4	14.3	3	10.7	-	-	5	17.9	9	32.1
Statements of changes in the funds (n=28)	4	14.8	2	7.4	2	7.4	-	-	-	-	-	-	4	14.8

The variations in the way financial information of *waqf* was reported in SIRCs/*baytulmal* institutions have compelled JAWHAR, as a federal agency responsible in coordinating and facilitating *waqf* activities in Malaysia, to develop guidelines specifically for accounting and reporting the *waqf* transactions in Malaysia. The *Waqf*

Accounting and Management Manual (Manual) was launched in 2007 aimed at offering guidelines in the treatment and presentation of financial information of *waqf*, and thus could permit performance comparison. The study attempted to gauge the reaction of SIRCs/*baytulmal* institutions towards the Manual by requesting respondents to indicate the level of adoption by their organisations. The analysis is presented in Table 6.7.6. Slightly more than 60% (20) of the respondents indicated that their organisations had to a certain extent adopted the Manual when preparing financial statements. This was not surprising, as the Manual was developed with considerable reference to the current accounting pronouncements, including the FRSs. Adoption of the Manual would require minimum changes to their present accounting systems. The pending approvals from higher authorities could partly be the explanation for the 36.4% of responses indicating future adoption.

Table 6.7.6: Analysis of the Level of Adoption of the *Waqf* Accounting and Management Manual in SIRCs/Baytulmal Institutions by Organisational Size and Type of Funding

Level of Adoption	Overall Analysis		Size						Type of Funding					
			Small (n=19)		Medium (n=10)		Large (n=7)		Fully-Funded (n=2)		Partially-Funded (n=12)		Self-Funding (n=22)	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Fully Adopted	1	3.0	1	3.0	-	-	-	-	-	-	-	-	1	3.0
Partially Adopted	6	18.2	3	9.1	3	9.1	-	-	-	-	-	-	6	18.2
Substantially Adopted	13	39.4	3	9.1	7	21.1	3	39.4	-	-	5	15.2	8	24.2
Never Adopt	1	3.0	1	3.0	-	-	-	-	-	-	1	3.0	-	-
Potentially Adopt in the Future	12	36.4	8	24.2	-	-	4	12.1	2	6.1	4	12.1	6	18.2
Total	**33**	**100.0**	**16**	**48.5**	**10**	**30.3**	**7**	**21.2**	**2**	**6.1**	**10**	**30.3**	**21**	**63.6**

When analysed by organisational size, small SIRCs/*baytulmal* institutions seemed to have a mixture of adoption levels, with the highest number for future adoption (eight responses) while one of them indicating that they would never adopt the Manual. Medium SIRCs/*baytulmal* institutions appeared to have partially (three responses) or substantially (seven responses) adopted the Manual. On the other hand, large SIRCs/*baytulmal* institutions had either substantially (three responses) adopted the Manual or would potentially adopt it in the future (four responses). Based on the types of funding, fully-funded SIRCs/*baytulmal* institutions intended to adopt the Manual in future (two responses), while five partially-funded SIRCs/*baytulmal* institutions had substantially adopted the Manual. Only one partially-funded SIRC/*baytulmal* institution indicated the 'Never Adopt' plan, while another four SIRCs/*baytulmal* institutions may potentially adopt the Manual in the future. However, more than 50% (15) of the self-funded SIRCs/*baytulmal* institutions had to a certain extent adopted the Manual and the remainder will be adopting it in the future.

In addition, the study also attempted to measure the perception of the senior managers on the potential consequences of the Manual towards the reporting practices of *waqf* information in SIRCs/*baytulmal* institutions. The study reveals that 70% of responses were somewhat 'Agree' (53.3%) and 'Strongly Agree' (16.7%) that the Manual would improve the quality of financial information related to *waqf*, improve the disclosure of financial information related to *waqf* and improved the process of accountability in *waqf* management. With regard to the reporting structure of *waqf* information, 60.5% of responses were in agreement (47.2% for 'Agree' and 13.3% for 'Strongly Agree') that the Manual would lead to improvement in the reporting structure. Analyses according to organisational size and type of funding, however, did not reveal any significant difference in the responses and there was no notable trend to be reported.

6.8 External Consultants

An attempt was also made to ascertain the extent to which SIRCs/*baytulmal* institutions have been utilising the services of outside consultants. This would highlight the areas in which SIRCs/*baytulmal* institutions had a potential deficiency in expertise or focus for improvement. Accordingly, respondents were requested to indicate the level of usage of their organisations of outside consultants for the development of the accounting system, performance measurement and e-government, as well as staff management and organisational reviews. They were asked to indicate the level of usage based on scale of 1 (Non-usage), 2 (Partial Usage) and 3 (Complete Usage). The analysis of the use of external consultants is presented in Table 6.8.1. The overall analysis shows that the development of accounting system was ranked first (mean=2.33) in terms of the use of external consultants. This result signifies the seriousness of SIRCs/*baytulmal* institutions in improving the accounting system. Increasing expectations from public with regards to the timeliness and relevance of financial information produced by SIRCs/*baytulmal* institutions perhaps had compelled these organisations to improve their accounting system. The development of an accounting system would either involve the shift from a manual accounting system to a computerised accounting system or upgrading the existing computerised accounting systems.

Further, the use of external consultants in staff management was ranked in the second place (mean=1.70). This involves training new personnel or re-training the existing personnel to acquire new skill and expertise or to keep them abreast with the latest management systems. SIRCs/*baytulmal* institutions may engage the National Institute for Public Management Malaysia (INTAN) to conduct staff development programmes. Similarly, SIRCs/*baytulmal* institutions may engage MAMPU as the agency responsible for the modernisation of the public sector in Malaysia for organisational review purposes. The development of e-government can be regarded as a new development in SIRCs/*baytulmal* institutions and it is therefore understandable if less attention was paid to this area. The low level of usage of external consultants for developing performance measurement was not surprising as most of SIRCs/*baytulmal* institutions have too limited financial resources to engage external consultants for such purposes.

When analysed by organisational size, there were significant differences in the responses for the development of performance measurement (p=0.033) and organisational reviews (p=0.015). Large SIRCs/*baytulmal* institutions may have adequate technical expertise that enabled them to have in-house development of performance measurement system. Further, in the case of small SIRCs/*baytulmal* institutions, the lack of capability, and little prospect for future expansion, restricted resources and less complex organisational structure were perhaps the possible reasons for the high rate of non-usage (73.3%) of external consultants for organisational reviews. It is also worth mentioning that small SIRCs/*baytulmal* institutions had considerably higher rates of non-usage of external consultants for the development of e-government and staff management. An analysis by the type of funding, however, did not produce any significant results in the responses.

Table 6.8.1: Analysis of the Level of Usage of External Consultants by Organisational Size

Categorisation	Size of Operating Expenditure												Overall		
	Small (n=19)				Medium (n=10)				Large (n=7)						
Use of External Consultant in	Non Usage	Partial Usage	Complete Usage	Mean	Non Usage	Partial Usage	Complete Usage	Mean	Non Usage	Partial Usage	Complete Usage	Mean	Mean	Rank	*Sig. (p)
	%	%	%		%	%	%		%	%	%				
Development of accounting system (n=30)	18.8	37.5	43.8	2.25	22.2	22.2	55.6	2.33	-	40.0	60.0	2.60	2.33	1	0.701
Development of performance measurement system (n=29)	75.0	12.5	12.5	1.38	33.3	22.2	44.4	2.11	100.0	-	-	1.00	1.55	5	**0.033**
Development of E-government (n=28)	66.7	26.7	6.7	1.40	37.5	12.5	50.0	2.12	80.0	20.0	-	1.20	1.57	4	0.103
Staff management (n=30)	62.5	31.2	6.2	1.44	22.2	55.6	22.2	2.00	20.0	60.0	20.0	2.00	1.70	2	0.079
Organisational reviews (n=29)	73.3	20.0	6.7	1.33	11.1	77.8	11.0	2.00	20.0	60.0	20.0	2.00	1.66	3	**0.015**
Other (n=8)	50.0	50.0	-	1.50	100.0	-	-	1.00	-	-	-	-	1.25	6	0.127

*indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test)

6.9 Collaboration and Corporatisation/Privatisation Policy in SIRCs/ *Baytulmal* Institutions

The Malaysian government introduced numerous policies to address the prominent issue of financial constraint and ineffectiveness in the deliveries in public sector. The sector was encouraged to undertake collaborations by way of joint ventures, partnerships and even outsourcing some of their functions and activities. The government expected that these initiatives would not only ease the financial burden and improve the effectiveness of its deliveries but also promote other sectors to share responsibilities and commitments in delivering public and social goods and services to the public. The study explored collaboration arrangements and corporation/privatisation initiatives in SIRCs/*baytulmal* institutions.

6.9.1 Collaboration Policy in SIRCs/*Baytulmal* Institutions

With regard to collaborations, it was revealed that an overwhelming majority (91.7%) of respondents indicated that SIRCs/*baytulmal* institutions have such arrangements with other organisations. The analysis presented in Table 6.9.1 showing the vast majority of responses (87.9%) indicated collaboration with the public sector organisations, while 48.5% of respondents reported having collaboration with non-governmental organisations. Collaborations with public sector organisations would restrict SIRCs/*baytulmal* institutions from accessing critical expertise and potentially losing the opportunity to assimilate novel management culture. Surprisingly, however, 66.7% of responses acknowledged that SIRCs/*baytulmal* institutions collaborated with the private sector despite the general resistance of the private sector to invest in charitable and non-profit making organisations. The growing interest of the private sector to work with SIRCs/*baytulmal* institutions would have resulted from the support and commitment shown by the Malaysian government in promoting Islamic financial and non-financial institutions. Further, financial backings from the Malaysian government in several Islamic institutions could have instituted the confidence of private sector to invest in the Islamic non-financial or charitable institutions, sharing the responsibilities and commitments in the provision of public and social goods and services to the public.

An analysis by organisational size shows that collaborations with the public sector were mostly undertaken by small SIRCs/*baytulmal* institutions (42.4%) in comparison to medium- (30.3%) and large-sized SIRCs/*baytulmal* institutions (15.2%). Presumably, collaborations with the public sector would require fewer adjustments in terms of the administrative structure and management culture for small SIRCs/*baytulmal* institutions. A more varied distribution of responses from all sizes was reported for collaboration with private sector organisations, indicating that SIRCs/*baytulmal* institutions were keen to discover and adopt commercial culture and expertise from the sector.

As far as the type of funding is concerned, self-funding SIRCs/*baytulmal* institutions (60.6%) were more likely to undertake partnerships or joint ventures with the government sector. Limited financial resources would in fact be the motivating factor for some self-funded SIRCs/*baytulmal* institutions to embark collaboration with public sector organisations due to financial assurance. On the other hand, collaborating with the private sector (48.5%), would offer self-funded SIRCs/*baytulmal* institutions opportunities to access expertise and infuse commercial culture into the organisations. Equally, the same potential reasons would be applicable when collaborating with other non-governmental organisations. It is also worth noting that fully-funded SIRCs/*baytulmal* institutions had no collaboration with either the private sector or non-governmental organisations.

Table 6.9.1: Analysis of the Types of Organisation with which SIRCs/Baytulmal Institutions Collaborate by Organisational Size and Type of Funding														
Categorisation			**Size**						**Type of Funding**					
Types of Organisation	**Overall Analysis**		**Small (n=19)**		**Medium (n=10)**		**Large (n=7)**		**Fully-Funded (n=2)**		**Partially-Funded (n=12)**		**Self-Funding (n=22)**	
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Public Sector	29	87.9	14	42.4	10	30.3	5	15.2	1	3.0	8	24.2	20	60.6
Private Sector	22	66.7	9	27.3	8	24.2	5	15.2	-	-	6	18.2	16	48.5
Non-Governmental Sector	16	48.5	5	15.2	7	21.2	4	12.1	-	-	3	9.1	13	39.4

*Number of responses = 33

6.9.2 Collaboration between SIRCs/*Baytulmal* Institutions and the Malaysia *Waqf* Foundation

Collaboration with the Malaysia *Waqf* Foundation (MWF) was the most recent arrangement to develop *waqf* assets and properties in Malaysia. Several SIRCs/*baytulmal* institutions had just embarked collaborating with MWF to develop *waqf* assets and properties, utilising the allocation of RM250 million in the Ninth Malaysia Plan. The study attempted to gain an insight into the arrangements as they were at the initial stage at the time the survey was undertaken. With regard to the status of collaboration itself, 63.9% of responses indicated that the two parties had embarked on such arrangement to develop *waqf* assets and properties. The result gives an encouraging indication that both parties were agreeable to work together in developing *waqf* properties. Although SIRCs/*baytulmal* institutions recognised the collaboration offered a sign of support from federal agencies in developing *waqf* resources, the financing of the collaboration can be a fundamental issue for some SIRCs/*baytulmal* institutions.

The Federal government emerged as the main financial provider for the collaborative arrangement: either in full (47.8%) or partially (39.1%). However, respondents also recognised the financial support of SIRCs/*baytulmal* institutions either in full (13.0%) or partially (30.4%). The low level of involvement of the private sector (8.7%) was expected as the sector is generally understood to be looking for economic returns for its investments. Only companies that are motivated by greater social change and not primarily seeking financial return would consider investing in charitable investments. Surprisingly, individuals appeared not to be involved (0%) financially in developing *waqf* through this collaboration. On other occasions, however, individuals contributed considerably to the development of *waqf* assets. One possible explanation for the ‘none’ response for individuals could be the participation of the government-related agencies which were perceived to provide financial reliability and thus they were of the opinion that their contributions would no longer be needed.

The study also attempted to gauge the management’s perception of the impact of the collaborations on *waqf* management in SIRCs/*baytulmal* institutions. The collaborations were not only to financially support *waqf* development, but were also expected to offer opportunities to SIRCs/*baytulmal* institutions in accessing expertise and assimilating a good management culture from relevant parties involved in the arrangement. The overall analysis of the perception of senior managers on the impact of the collaborations reveals an overwhelming majority (more than 80%) of the senior managers agreed that the collaborations would improve the effectiveness, accountability process, delivery systems and planning processes of *waqf*, as well as inculcating commercial culture in the *waqf* management. More importantly, they agreed that most of the collaboration would first help these organisations to steer the long-term operations (mean=4.40) and second, the operational planning (mean=4.30) of the *waqf* management. The third position was shared between the enhancement of the delivery services to *waqf* beneficiaries (mean=4.27) and the public and the inculcation of commercial culture in the *waqf* management (mean=4.27). This was followed by the improvement in the process of accountability (mean=4.20) while finally, the collaborations would improve the effectiveness of *waqf* management as a whole (mean=4.17).

The analyses according to organisational size and type of funding produced significant differences in responses, the findings of which are disclosed in Table 6.9.2 and Table 6.9.3 respectively. When analysed by organisational size, significant differences were revealed in responses related to the creation of the commercial culture (p=0.034) in the *waqf* management. It seems that smaller SIRCs/*baytulmal* institutions were more receptive to adapt the new culture of management in comparison to larger SIRCs/*baytulmal* institutions. For instance, 46.6% of responses from small SIRCs/*baytulmal* institutions and 30.0% from medium-sized SIRCs/*baytulmal* institutions agreed that the collaborations would have a commercial impact on *waqf* management and only 13.3% from the large SIRCs/*baytulmal* institutions.

As far as the type of funding is concerned, the non-parametric test also produced significant difference for the inculcation of commercial culture (p=0.034) and improvement in the operational planning (p=0.012) of *waqf* management in SIRCs/*baytulmal* institutions. More than 45% of responses from self-funding SIRCs/*baytulmal* institutions ranged between ‘Agree’ and ‘Disagree’ on all potential consequences given in the question on the accountability and effectiveness of *waqf* management. However, fully-funded SIRCs/*baytulmal* institutions seemed to be unsure (Neutral) on the impact of the collaborations on *waqf* management, except that 3.3% of the responses agreeing that collaborations could improve the long term planning. The financial security of the fully-funded SIRCs/*baytulmal* institutions could have made them indifferent to collaborations.

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Table 6.9.2: Analysis of the Level of Agreement towards the Impact of the Collaboration between the Malaysia *Waqf* Foundation (MWF) and SIRCs/Baytulmal Institutions on the Accountability and Operational Effectiveness of *Waqf* Management by Organisational Size

Categorisation	**Small (n=19)**					**Medium (n=10)**					**Large (n=7)**					**Overall**		
Level of Agreement	**SD**	**D**	**N**	**A**	**SA**	**SD**	**D**	**N**	**A**	**SA**	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Rank**	***Sig. (p)**
Potential Impact	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%			
Improve the overall <u>effectiveness</u> of *waqf* managements (n=30)	-	-	10.0	16.7	26.7	-	-	-	23.3	6.7	-	-	6.7	10.0	-	4.17	6	0.126
Improve the process of <u>accountability</u> of *waqf* management (n=30)	-	-	6.7	20.0	26.7	-	-	3.3	16.7	10.0	-	-	6.7	10.0	-	4.20	5	0.102
Enhance the <u>delivery of services</u> to *waqf* beneficiaries and the public (n=30)	-	-	6.7	20.0	26.7	-	-	-	16.7	13.3	-	-	6.7	10.0	-	4.27	3	0.068
Create a <u>commercial culture</u> in the *waqf* managements (n=30)	-	-	6.7	13.3	33.3	-	-	-	20.0	10.0	-	-	3.3	3.3	10.0	4.27	3	**0.034**
Improve <u>long-term planning</u> in the *waqf* managements (n=30)	-	-	10.0	6.7	36.7	-	-	-	20.0	10.0	-	-	3.3	6.7	6.7	4.40	1	0.483
Improve <u>operational planning</u> in the *waqf* managements (n=30)	-	-	10.0	13.3	30.0	-	-	-	20.0	10.0	-	-	6.7	3.3	6.7	4.30	2	0.660

*indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test)
(SD=Strongly Disagree; D=Disagree; N=Neutral; A=Agree; SA=Strongly Agree)
n refers to number of responses for the enquiry

Table 6.9.3: Analysis of the Level of Agreement towards the Impact of the Collaboration Between the Malaysia *Waqf* Foundation (MWF) and SIRCs/*Baytulmal* Institutions on the Accountability and Operational Effectiveness of *Waqf* Management by Type of Funding

Categorisation	**Fully-Funded (n=2)**					**Partially-Funded (n=12)**					**Self Funding (n=22)**					**Overall**		
Level of Agreement	**SD**	**D**	**N**	**A**	**SA**	**SD**	**D**	**N**	**A**	**SA**	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Rank**	***Sig. (p)**
Potential Impact	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%			
Improve the overall effectiveness of *waqf* managements (n=30)	-	-	6.7	-	-	-	-	-	23.3	13.3	-	-	10.0	26.7	20.0	4.17	6	0.062
Improve the process of accountability of *waqf* management (n=30)	-	-	6.7	-	-	-	-	-	23.3	13.3	-	-	10.0	23.3	23.3	4.20	5	0.073
Enhance the delivery of services to *waqf* beneficiaries and the public (n=30)	-	-	6.7	-	-	-	-	3.3	20.0	13.3	-	-	3.3	26.7	26.7	4.27	3	0.052
Create a commercial culture in the *waqf* managements (n=30)	-	3.3	3.3	-	-	-	-	-	16.7	20.0	-	-	6.7	26.7	23.3	4.27	3	**0.034**
Improve long-term planning in the *waqf* managements (n=30)	-	-	3.3	3.3	-	-	-	-	10.0	26.7	-	-	10.0	20.0	26.7	4.40	1	0.070
Improve operational planning in the *waqf* managements (n=30)	-	-	6.7	-	-	-	-	-	10.0	26.7	-	-	10.0	26.7	20.0	4.30	2	**0.012**

*indicates distribution of responses between categories of types of funding at 5% level of significant (using Kruskal Wallis test)
(SD=Strongly Disagree; D=Disagree; N=Neutral; A=Agree; SA=Strongly Agree)
n refers to number of responses for the enquiry

6.9.3 Corporatisation and Privatisation Policy

The corporatisation/privatisation initiative is one of the New Public Management (NPM) principles introduced to the Malaysian public sector organisations, aimed to address the increasing demands and expectations from the public for efficient and effective service deliveries. In the Malaysian government context, corporatisation is one of the steps towards privatisation, as privatisation involves the transfer of ownership of government organisations to the private sector (Mohamad 2004). However, the occurrence of the two is not necessarily in sequence. Essentially, corporatisation is the process of converting the legal status of a government organisation into a limited company wholly-owned by the government (Malaysian Government, 1996). As part of the government's administrative structure, SIRCs/*baytulmal* institutions were also expected to assume the corporatisation/privatisation initiative aimed at improving their effectiveness and efficiency. The study reveals that only 30.6% of responses indicated that their organisations had plans to either assume corporatisation or privatisation. The gradual move for the corporatisation or privatisation in SIRCs/*baytulmal* institutions may suggest that these organisations seemed to be sceptical on the viability of privatising or corporatising the delivery of social goods and services. This was despite the general perception that privatisation and/or corporatisation promote efficiency and effectiveness through competition. Of these responses, five respondents stated that their organisations had a plan to corporatise the *waqf* administrative sections, known as *Perbadanan Wakaf* (*Waqf* Corporation). Another four respondents reported that their organisations were to corporatise the *baytulmal* management as *Perbadanan Baitulmal* (Baitulmal Corporation). In the past, the Sabah Islamic Religious Council and Sarawak Islamic Council had corporatised the managements of Islamic resources, which are currently known as Sabah Baitulmal Corporation (*Perbadanan Baitulmal Sabah*) and Sarawak Baitulmal Fund (*Tabung Baitumal Sarawak*) respectively. In Selangor, Melaka and the Federal Territories, the *zakah* (Islamic taxation) collection were corporatised aimed at improving the efficiency of the management of *zakah* collection.

6.10 Summary

The perceptions of 36 senior managers participating in the questionnaire survey indicated that SIRCs/*baytulmal* institutions were afforded substantial autonomy in managerial and financial aspects. Substantial authority was afforded to SIRCs/*baytulmal* institutions in setting organisational goals and objectives (mean=4.70), long term planning (mean=4.44), annual budgeting (mean=4.88), investments (mean=4.34), performance measurement (mean=4.53) and reviews (mean=4.5.), accounting system (mean=4.64) and staff management (mean=4.55) reinforced the proposition on the greater freedom and flexibility granted to these organisations. This is reflected in the substantial level of executive authority afforded to the CEO of SIRCs/*baytulmal* institutions. External parties were found to have very limited authority towards the activities of SIRCs/*baytulmal* institutions except for state government. Equally important, there was significant difference in responses when analysed by organisational size and type of funding in terms of the authority over management activities.

With regards to accountability relationships in SIRCs/*baytulmal* institutions, they appear to reflect transfers of resources and/or responsibilities. Overall, respondents recognised that the strongest level of accountability relationship (mean=3.06) seemed to exist between SIRCs/*baytulmal* institutions and the National Audit Department (NAD). At the state level, SIRCs/*baytulmal* institutions show a stronger level of accountability towards the State Legislative Assembly (SLA) (mean=2.12) than to state treasury (mean=1.74). These accountability relationships were attributable largely to the legal requirement for the production and verification of statement of accounts and annual budgets by respective state enactments and the Statutory Bodies (Accounts and Annual Reports) Act 1980. At the same time, the significant difference in responses on accountability level towards the parliament when analysed by type of funding may reflect the existence of a financial relationship between the two parties. The fully-funded SIRCs/*baytulmal* institutions could have received financial allocation from federal government and thus were expected to present relevant accounts and budgets before Parliament. In terms of size, a significant difference in responses was reported for SLA and NAD. Senior managers of SIRCs/*baytulmal* institutions were revealed as being indifferent according to size and type of funding in terms of mechanisms to discharge accountability. Overall, annual budgets emerged to hold a focal position in the operation of SIRCs/*baytulmal* institutions.

The results on the existence of strategic planning for operational activities (86.1%), capital expansion (42.5%) and *waqf* activities (80.6%) signal the relevance of this management tool in SIRCs/*baytulmal* institutions. This was despite the high rate of responses considering the existence of unplanned activities in the form of ad-hoc (16.7%), upon-request (45.4%) and upon-directives (41.7%). It appears that senior managers in SIRCs/*baytulmal* institutions recognised the importance of strategic planning, regardless of organisational size and type of funding. They also indicated that the time-scale for strategic planning in SIRCs/*baytulmal* institutions was consistent with the national development planning period, between 3 and 5 years, allowing them to benefit from any financial allocation from the Federal government. In the last Ninth Malaysia Plan (2006-2010), SIRCs/*baytulmal* institutions benefited from RM250 million exclusively for *waqf* development purposes. Three elements of strategic planning in SIRCs/*baytulmal* institutions emerged in the study with regard to the involvement of top management. First, responses indicated the active participation of the CEO (94.4%) in the planning process, which was crucial in setting organisational missions and direction. Second, senior managers regarded top management support (mean=4.56) as the most important element in the execution stage of strategic planning. Finally, considerable authority appeared to be afforded to the CEO (71.4%) to take charge of the performance review in SIRCs/*baytulmal* institutions. The control over the review of the overall strategic planning process by the CEO is imperative to ensure that corrective actions are undertaken accordingly. However, SIRCs/*baytulmal* institutions need to reflect on noticeable gaps between the existence of formal reviews (91.7%) and follow–ups (operational activities-68.6%; capital expansion-45.7%; *waqf* activities-62.9%), which may be attributable to the limitation of the delegation of responsibilities in reviewing performance to operational managers.

In relation to the budgetary systems, the results from the questionnaire survey revealed that SIRCs/*baytulmal* institutions prepared three types of budgets: expenditure budgets (100%), revenue budgets (97%) and capital budgets (69.4%). A bottom-up culture appeared to be the dominant feature of budget preparation in SIRCs/*baytulmal* institutions. Respondents held there was active participation of the heads of division/departments (mean=4.71) and the finance director/accountant (mean=4.32) during the budget preparation while there was very limited involvement from external parties such as the Federal Treasury (mean=1.14) and the State Treasury (mean=1.66). This trend existed regardless of organisational size and type of funding. The results reinforce the proposition that SIRCs/*baytulmal* institutions were afforded greater freedom and flexibility in relation to financial management aspects. In terms of budgetary control, the Board of Councils and the CEO seemed to have substantial authority over budget allocation. As the vast majority of SIRCs/*baytulmal* institutions experienced financial constraints, strict budgetary controls were expected. The overwhelming majority of responses (94.4%) indicated formal budget reviews were performed, primarily by the Committee of Financial Management and Accounts. By and large, budget reviews were undertaken on quarterly (44.1%) and monthly (32.4%) bases. In addition, hard-copy print-outs on actual spending were distributed to departments/divisions on a monthly basis while a few SIRCs/*baytulmal* institutions also provided online access of budgetary data. Further, heads of divisions/departments (mean=4.35) and the finance director/accountant (mean=4.21) were actively involved in budget monitoring exercises, allowing corrective actions to be undertaken in a timely manner if spending went over budget. Overall, the tough budgetary controls seem to have resulted in the infrequent (42.9%) occurrence of budget variance while another 25.7% claimed budget variance had never occurred in their organisations. It is worthwhile noting that the financial constraints may have compelled the management of SIRCs/*baytulmal* institutions to conform strictly to budgets although this may trade off to delivering their functions effectively. Taken as a whole, budgets were regarded as planning (mean=4.62), controlling (mean=4.53) and performance measurement (mean=4.41) tools in SIRCs/*baytulmal* institutions regardless of the size of organisations and type of funding.

Performance measurement was reported to be in place within SIRCs/*baytulmal* institutions. Financial performance indicators (86.1%) were indicated to be commonly used in performance measurement of SIRCs/*baytulmal* institutions, with the vast majority of respondents regarded budget as a somewhat important (55.6%) and very important (38.9%) performance measurement tool. The CEO has control over the process of setting performance indicators (91.4%) and performance monitoring (80.6%). There was also considerable participation of the operational levels (71.4%) in the development of performance indicators, which was expected to add some practical perspectives on the indicators. As annual budgets were regarded as an important performance measurement tool, performance reviews and performance reporting seemed to correspond with the existing budgetary practices. Performance reviews in SIRCs/*baytulmal* institutions were conducted on either a quarterly (37.5%) or monthly (31.2%) basis, while performance information was reported predominantly in Annual Reports and management reports. The analyses of responses based on organisational size and type of funding produced mixed results in relation to other media of reporting such as websites, internal circulars and mass-media.

The examination of financial reporting practices indicates certain level of variations in the reporting of financial information amongst SIRCs/*baytulmal* institutions. With regards to the Annual Reports, only the Income and Expenditure Accounts were reported by all SIRCs/*baytulmal* institutions while other mandatory financial statements required by FRS 101 such as Cash Flow Statements (91.7%), Balance Sheets (88.9%) and notes to the accounts (72.2%) were reported as different extent. The laxity in reporting the mandatory financial statements appeared to be present in smaller SIRCs/ *baytulmal* institutions. Nonetheless, SIRCs/*baytulmal* institutions emerged to be paying attention to the requirement to report the Income and Expenditure Accounts by type of funds (97.2%). In the case of descriptive information on the activities, SIRCs/*baytulmal* institutions seemed to focus more on the reporting year's activities (88.2%) than their future plan (50.0%). This disclosure trend was less helpful for performance comparison. However, the reporting of fundamental financial information of revenues, expenditures, cash flows, assets and liabilities was undertaken by most SIRCs/*baytulmal* institutions via management reports (more than 85%). Internal circularisation, websites, ceremonies/events and mass media were only occasionally employed to report this fundamental financial information. By and large, primary financial statements such as Receipts and Payments Accounts, Income and Expenditure Accounts, Balance Sheets and Cash Flows statements were reported on a monthly basis. The reporting of these financial statements within management reports indicating that such information may be used for decision-making purposes by a management team. However, the results from the questionnaire survey suggested that the regulatory framework for accounting operations in SIRCs consists mainly of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (mean=4.36), FRSs (mean=4.28), TIs (mean=4.24) and internal accounting guidelines (4.14). The reliance upon GASs differed significantly between SIRCs and *baytulmal* institutions of different sizes while the responses for the TIs and FRSs differed significantly according to the type of funding.

The use of external consultants in SIRCs/*baytulmal* institutions emerged as not being significant. External consultants in SIRCs/*baytulmal* institutions were mainly hired for the purpose of developing accounting systems; either developing a new computerised accounting system or upgrading the present accounting system corresponding to their current operational requirements. Engaging external consultants for performance management, development of e-government, staff management and organisational reviews in SIRCs/*baytulmal* institutions seemed to be very limited. Financial constraints experienced widely by SIRCs/*baytulmal* institutions restricted them from engaging external consultants even for critical organisational advancement. In small SIRCs/*baytulmal* institutions for instance, little prospect of future expansion and a less complex organisational structure could have deterred them from hiring external consultants for organisational review. Alternatively, SIRCs/*baytulmal* institutions engaged with government training centres such as INTAN and MAMPU for staff management and organisational reviews, respectively.

With regards to *waqf* activities, responses in the questionnaire survey indicated that *waqf* activities seem to be incorporated as part of the operations within SIRCs/*baytulmal* institutions. There was very limited influence of federal religious authorities such as JAKIM (mean=1.50), JAWHAR (mean=1.82) and WMF (mean=1.53) upon *waqf* activities in SIRCs/*baytulmal* institutions. Collaborations between JAWHAR and SIRCs/*baytulmal* institutions were focusing more on the physical development of *waqf* assets and properties. A substantial number of SIRCs/*baytulmal* institutions appeared to develop strategic planning as well as preparing annual budgets for *waqf* activities. Furthermore, respondents were largely agreed that the current strategic planning and budgetary practices could have impacted the effectiveness of *waqf* management in SIRCs/*baytulmal* institutions. As far as financial reporting practices are concerned, respondents indicated that the disclosure and maintenance of *waqf* financial information varied considerably among SIRCs/*baytulmal* institutions. The *Waqf* Accounting and Management Manual (*Waqf* Manual) that was issued by JAWHAR to redress the issue of variation in reporting *waqf* financial information was responded to satisfactorily by SIRCs/*baytulmal* institutions. The majority of respondents concurred that the adoption of the manual would eventually improve the process of accountability via financial reporting.

Overall, the findings of the questionnaire survey offer some insights into the practices of the accountability systems and their operational effectiveness in SIRCs/*baytulmal* institutions. In an attempt to provide further evidence concerning the practice of the accountability systems, a series of in-depth interviews was undertaken with senior managers and operational officers of SIRCs/*baytulmal* institutions as well as senior officials of JAWHAR, MWF and NAD. An outline of the responses from these interviews is provided in the following chapter.

CHAPTER SEVEN: RESULTS AND ANALYSIS OF SEMI-STRUCTURED INTERVIEWS

7.1 Introduction

The results from the questionnaire survey, discussed in the previous chapter, indicated that SIRC/*baytulmal* institutions were afforded substantial autonomy in managerial and financial operations, had financial accountability relationships to relevant authorities of the institutional accountability framework, developed strategic planning, practiced participative budgeting and imposed essential budgetary controls, undertook performance measurement and reported disclosed necessary financial information. Further, there were evidences of these organisations engaging external consultants for some of their organisational functions. In addition, *waqf* activities appeared to be integrated in the general operations of the organisations, but in most cases they were managed by separate administrative units. The study conducted a series of semi-structured interviews to derive further understanding and to enhance the knowledge on the practices of the fundamental managerial practices as well as to diagnose potential challenges in the existing *waqf* management under the trusteeship of SIRC/*baytulmal* institutions. The interviews with senior and operating managers of SIRC/*baytulmal* institutions, senior officials of JAWHAR, WMF and NAD were also expected to clarify issues in the questionnaire. It was anticipated that the interviews would provide a more rounded and credible picture of the accounting, accountability and effectiveness of SIRCs/*baytulmal* institutions as the sole trustees of *waqf* resources in Malaysia. Details of the interviewees were provided in Table 5.6.1 of Chapter 5.

The structure of the chapter is similar to that of the previous chapter, but with more emphasis on the existing practice of the accounting, accountability and effectiveness of SIRCs/*baytulmal* institutions. The following section provides background information on SIRC/*baytulmal* institutions, and is followed by sections that present and discuss interviewees' opinions on the current practice of the accounting, accountability and effectiveness of SIRCs/*baytulmal* institutions. The discussion of the results includes quotes from participants. However, since some interviewees wished to remain anonymous due to the sensitivity of the issues being investigated, they are referred according to their official designations in the organisations or simply as senior/operational managers or officials in the analyses. Similarly, each of the organisations was assigned with a unique code to preserve its anonymity. These codes can be found in Table 5.4.1 on page 148. All interviews were conducted mainly in the Malay language, and subsequently translated into English by the researcher.

7.2 Background Information of SIRCs/*Baytulmal* Institutions

The interview survey reveals that SIRCs existed in three distinct organisational arrangements prior the organisational restructuring schemes approved by the PSD in the years from 2000 to 2008: first as an independent and structured organisation; second as an independent but shared administrative resources with SIRDs; and third as a quorum of a meeting. Prior to the restructuring programme, more than fifty-percent of SIRCs existed as independent and structured organisations, comprising functional divisions and units. Most participants agreed that having existed as independent and structured organisations enabled the SIRCs concerned to perform their primary role as the advisor to the Ruler and at the same time to undertake a wide range of economic and social programmes and activities for the benefit of Muslim communities in their respective states. Policy making (by SIRCs) and service deliveries (by SIRDs) are distinct tasks and each benefits from the additional attention it have if it is not competing for management time with the other (Manning 2001). Thus these SIRCs continued to exist as independent and structured organisations without any organisational rsrtucturing.

Further, the interviews revealed that slightly more than forty-percent of SIRCs (6 of 14) existed as independent structure but shared administrative resources with SIRDs. The most striking feature of this type of organisational arrangement was sharing the head of organisation and key officials. Although these SIRCs appeared to invariably perform their primary function as the advisor to the Ruler on matters of Islam and Malay customs, interviewees from these SIRCS insisted they were bewildered by the unclear organisational missions, particularly in aspects of socio-economic development of

Muslims. These interviewees also complained on the lack of commitment of the top management in handling managerial and fiscal operations of SIRCSs under the organisational arrangement. It was believed that the distinct objectives, functions and operations of SIRC and SIRD necessitated them to exist independently. This predicament has motivated the SIRCs/*baytulmal* institutions concerned to undertake major organisational restructuring. As a result, these SIRCs/*baytulmal* institutions now exist as independent and structured organisations and appeared to be functioning in mobilising Islamic assets and resources for the socio-economic progress of Muslims in respective states.

Interestingly, the interview survey discovered that a quorum of meeting remained in existence. SIRC P has been existed as a quorum for meetings since its inception and was solely engaged in policy-making on matters of Islam and Malay customs in the state concerned. This necessitated the creation of a semi-autonomous *baytulmal* entity, BM B, to undertake socio-economic development programmes and activities in the state as this function could not be performed by being a quorum meeting.

The interview survey has also discovered the creation a semi-autonomous *baytulmal* entity (i.e. BM A), which was chiefly obliged to expedite the mobilisation of all Islamic assets and resources of the state concerned in a less bureaucratic manner. The creation of BM A was despite the existence of an independent and structured SIRC (i.e. SIRC N) in the state. It was expected that both SIRC N and the *baytulmal* entity (i.e. BM A) undertook socio-economic developmental activities 'hand-in-hand' as they were equally subject to the same policies and state enactments. Practically, however, ambiguous interpretations of the laws over the status, roles and accountability of the *baytulmal* institution has become a source of tension and frustration between SIRC N and BM A. It appeared that both parties were adamant about their organisational status, functions and roles in the socio-economic development of Muslims in the state. Overlapping of functions have caused public confusion over their roles and responsibilities. For instance, the public can either approach the SIRC or the *baytulmal* entity for the purpose of *waqf* creation. Accordingly, the senior official of the SIRC pointed out that his organisation had decided to put some of its fundamental activities on hold until such discrepancies were resolved.

7.3 Autonomy and Accountability

The results of the questionnaire survey disclosed in Table 6.3.3 reveals that SIRCs/*baytulmal* institutions are granted substantial authority in the overall operations and future direction, namely, establishing organisational goals and objectives, long-term planning, performance measurements and reviews, staff management as well as fiscal operations. Autonomy and accountability are important elements for an effective functioning of statutory agencies such as SIRCs/*baytulmal* institutions (Islam 1993).

7.3.1 Managerial Autonomy

Based on the questionnaire survey reported in Chapter Six, the CEO and the Board of Councils are granted the greatest authority in relation to the managerial and fiscal operations as well as the future positioning of SIRCs/*baytulmal* institutions. This managerial autonomy authorises, to a certain extent, managers to devise the best ways of organising their resources and hence generating productivity gains (Ezzamel 1990; Islam 1993). The findings were confirmed by the interview survey. The CEO, who has the executive power, is not only responsible for the overall operations of the organisation, including financial operations but also instrumental in the implementation of major policies in the organisation. For instance, the new CEO of SIRC L has directed the adoption of strategic planning in all of the organisation's activities. This was an attempt to improve the efficiency and effectiveness of the organisational operation.

Interestingly, both the policy-making on the administrative aspects of Islam and decision-making on organisational operations were revealed to be undertaken collectively by the Board of Council, and the CEO, who is also a member of the Board. Practically, the Board of Councils whose members have diverse backgrounds and vast experience governs the policy-making for the overall operations and future direction of SIRC/*baytulmal* institutions. The vast majority of participants agreed that the existing collective decision-making practiced in SIRCs/*baytulmal* institutions has not so far proved to be problematic. In fact the collective decision-making, which is also consistent with the Islamic concept of *musyawwarah* (collective decision-making), was insisted of strengthening the managerial operations of these organisations. Although it adds another level of bureaucracy to the decision-making processes, generally interviewees maintained that the existing collective decision-making style enhances the accountability of SIRC/*baytulmal* institutions in handling the Islamic resources and funds. They claimed that when the majority of the decision makers are insiders, it is likely to be easier to get people together to decide on important matters, reconcile differences, and coordinate implementation activities. In addition, interviewees also indicated the existence of delegation of authority by the CEO and/or the Board of Councils to operational managers if they deemed it necessary to expedite vital operational functions of the organisations. The following statement by an Administrative Executive of SIRC C illustrates the authorisation of the administrative affairs on Islam to the Board of Councils:

> *"The Yang Di Pertua Agong (the King) is the head of Islam in our state since the state is not ruled by a Sultan (a Ruler) whom he has the absolute authority in the* Council*. However, realistically, the administrative affairs of Islam in the state is authorised to the Board of Councils."*

Further, it was very intriguing to discover that the staff management of SIRCs was subject to policies of the PSD, particularly for the creation of new positions and promotional exercises of permanent and pensionable staff as they would have financial implications on the Federal government in terms of pensions and other related costs. At the time when the interview survey was undertaken, the PSD had imposed a policy to put on hold new recruitment of permanent and pensionable staff due to financial reasons. This had adversely affected the overall operations of SIRCs, in particular the proposed organisational restructuring and the expansion of programmes and activities in most of the SIRCs. Several participants highlighted their frustrations over the decisions of the PSD in imposing the general policies on SIRCs, which had hampered the organisational restructuring and the expansion of programmes and activities. Instead these two activities were only being executed within the existing capacity of manpower. An accountant of SIRC J, a self-funded organisation encapsulates the impact of halting the creation of new posts in SIRCs in the following statement:

“*In our planning, we want to improve our organisational structure and expand our operations, but all these require additional personnel. But when we applied the new additional posts to the PSD, it took years to get them approved, and once they were (additional posts) approved, only then we could implement our plan. Even at that, it took some more time to set up a new unit and recruit the personnel. We can't do it just on the spot!*”

Although SIRCs were granted more flexibilities in the recruitment of non-permanent staff and decided on the training of these staff, the processes would consume substantial human resources and the turn-over rates were high. Baytulmal institutions such as BM A and BM B, however, have greater freedom in staff management including the recruitment of new employees, promotion and creation of new posts in the organisations as are considered as private entities of SIRCs.

7.3.2 Fiscal Autonomy

The fiscal autonomy makes possible for organisations to raise finances to pay for the operating expenditure (Oulasvirta and Turala 2009). The fiscal autonomy granted to SIRCs/*baytulmal* institutions was indicated by the results of the questionnaire survey reported in Table 6.3.3. The general perception of respondents was that the organisations were granted the greatest authority in budgeting and budgetary control matters, accounting operations and investment activities.

The interview survey revealed that the vast majority of SIRCs/*baytulmal* institutions are independently governed by their respective state enactments, the financial sources of these organisations typically comprised the same types of receipts, namely, internal revenues, public contributions and government grants (except for self-funded SIRCs). The largest proportion of their revenues comprises management fees for being the *amil* [59](fund manager) of *zakah* and revenue generated by *baytulmal* investments, assets and properties. In a minority case, the State Fatwa Councils also approved the use

[59] Thirteen SIRCs/*baytulmal* institutions were appointed as fund managers of *zakah*, and thus eligible to receive one-eighth (1/8) of the *zakah* collection as management fees unless the management of *zakah* was outsourced to a corporatised entity. The *zakah* management of one state is assigned to a separate state *zakah* management agency and therefore the SIRC concerned was not eligible for the management fees as *amil (*fund manager*)*.

of the *fisabilillah*[60] (for the cause of Allah) portion of *zakah* collection to finance the operation of SIRCs. Under this condition, the SIRCs/*baytulmal* institutions concerned would have two-eighth (2/8) portions of the *zakah* collection *(amil* and *fisabilillah)* to finance the operating expenditure. With respect to *waqf*, most of these organisations derived its management fees for being the administrator of *waqf* assets and properties. Rental income from non-restricted *waqf* assets and properties also contributed generously to the finances of the operating expenditure while general donations from the public were another typical source of finances. It has become clear from the above discussion that SIRCs/*baytulmal* institutions were granted the flexibilities to raise finances unless stated otherwise by the state enactments or relevant legal stipulations, which the huge proportion of them was derived from third parties outside the organisations. The trend in and extent of their contributions and financing capacity of these parties could have substantial influence in shaping the programmes and activities SIRCs/*baytulmal* institutions.

Further, interviews with senior officials discovered the existence of three distinct types of funding in SIRCs/*baytulmal* institutions, namely, self-funding, partial funding and full funding. The interview surveys confirmed the results of the questionnaire survey in Chapter Six that SIRCs/*baytulmal* institutions were predominantly self-funded, that is, they did not receive any financial assistance from either the State governments or Federal government. The partially-funded ones received a fixed amount of non-repayable grants from either the State governments or the Federal government. Discussions with financial officials of partially-funded SIRCs indicated that funding from the State government would only cover at most ten percent of their total annual operating expenditure and in most cases were assigned as non-repayable grants or in-kind. On the other hand, the operating expenditures of fully-funded SIRCs were covered substantially by either the State government (i.e. SIRC B) or the Federal government (i.e. SIRC E). SIRC E has the

[60] *Zakah* collection can only be distributed to any of the eight eligible groups of *asnaf* (beneficiaries) that are mentioned in the Qur'an (Section 9: verse 60). They are the *fakir* (the poor who are without any means of livelihood and material possessions), *miskeen* (the needy who are without sufficient means of livelihood to meet their basic necessities), *amil* (administrators who are appointed to manage and administer zakah), *muallaf* (those who are inclined to enter or have already converted to Islam), *riqab* (to free slaves or captives), *gharimin* (indebted persons or to pay off the debts of a person who has borrowed to pay for basic necessities so that he/she can lead a normal life), *fisabillillah* (to finance any form of struggle or work for the cause of Allah) and *ibnus sabil* (wayfarers or travellers facing difficulties in continuing his journey).

privilege of being financed by the federal government as it is placed directly under the Prime Minister's Department and subject to the administrative and regulatory frameworks of the federal government. On the other hand, SIRC B did not involve with the *zakah* management of the state and thus it did not have management fees for being an *amil* as the main source of revenue.

7.3.3 Accountability Relationships in SIRCs/*Baytulmal* Institutions

Sinclair (1995) asserted that there existed different types of accountability relationship in the public sector. The results of the questionnaire survey in Chapter Six revealed that SIRCs/*baytulmal* institutions seemed to have established accountability relationships toward relevant authorities in the accountability framework. Based on the interview survey, SIRCs/*baytulmal* institutions emerged to have established at least two types of accountability relationships. First, the interview survey confirmed the results of the questionnaire survey on the existence of a formal type accountability i.e. financial accountability relationship. As mentoned in earlier chapters and sections, SIRCs/*baytulmal* institutions were appointed as *zakah* fund managers and *waqf* trustees, as well as responsible for the management of *baytulmal* resources. Thus the accountability relationship was concerned most with the appropriateness of the management of these assets and resources entrusted to these organisations. It was revealed that SIRCs/*baytulmal* institutions had unwavering financial accountability toward authorities that were relevant for the budget approval such as the State Legislative Assembly, Parliament or *Majlis Mesyuarat Kerajaan Negeri* (State Government Council Meeting) as well as the NAD for the appropriateness of the utilisation of public funds, which was stipulated in the laws.

Second, the interview survey uncovered the existence of more unstructured accountability relationships between SIRC/*baytulmal* institutions and the elite. According to Olsen (1978), an elite power could be recognised as the power to exercise force and dominance over others deriving from either the valued resources they control (economic, political etc.) or the key functionary roles of a gatekeeper, communicator or, decision maker. Since SIRCs are placed directly under the Rulers, it is obviously natural for the management of SIRCs to feel obliged to conform to directives from the Rulers. The presence of elite power in the financial management of SIRC/*baytulmal* institutions was recognised by ealier studies and the imposition of the elite power varies quite significantly between SIRC/*baytulmal* institutions (Abdul-Rahman and Goddard 1998; Abdul-Rahman and Goddard 2003). Several participants pointed out that the existence of this intrinsic 'shared power' between the top management and the elite, which very frequently do not have the same priorities would result to conflicting directives. Directives from the elite, in most of the cases, prevailed as described by an Economic Affairs Officer of SIRC F, a large and self funded organisation, in the following comment:

> *"We have a lot of activities and programmes to be carried out but we need to prioritise them according to their importance. One of them is the directives from His Majesty. His directives are among the priorities in the management decisions and we would take that into account when setting our Annual Work Targets."*

Likewise, an accountant of the same SIRC highlighted that the conflicting directives from the top management and the elite would have involved amendments not only to the financial planning but also to the overall planning in the organisations concerned. The focus and deployment of resources in the organisations would experience significant disruptions in several occasions. The accountant shared the experience in which the elite power had over-ridden financial capacity in fiscal decision-makings as in the following comments:

> *"There are times where His Majesty asks us to focus on a particular area or issue. So, our budgets in the following year will address his expectations and we will strategise our activities to be in line with his directives. If the execution of the directives needs additional allocation, we will adjust the budget accordingly. Sometimes it requires additional allocation in order to implement his directives and even leads to a budget deficit."*

The presence of the elite power also seemed to be dominant in the decision-making processes of SIRC M, a medium size and partially-funded organisation. The

Ruler appeared to be closely monitoring the operations of the SIRC concerned, in particular, the developmental projects. This has sometimes caused pressures to officials as to whether their managerial operations fulfilled the expectations of the elite. The executive officer of SIRC M described the imposition of the elite power in his organisation as follows:

> *"We are absolutely under His Majesty (the Ruler) and the enactments stipulate that His Majesty may appoint officials to assist him (undertaking his roles). He seems to delegate great authority for us to perform our duties and work, but not for project developments. He would personally involve in development projects and require his endorsement, and all minutes of meetings are brought before him for his endorsement."*

However, this accountability seemed to be less evident or not at all evident in states that are directly placed under the King. This is presumably because the primary focus of the King is the well-being of his state, and therefore he appears to have very little involvement in the managerial and fiscal operations of these organisations. The authority for the overall managerial and fiscal operations of these organisations is greatly pursued by the CEO and the Board of Councils. An accountant of SIRC H that its state's sovereign head is the King described the situation as in the following comments:

> *"Being under the King means the CEO has more power. The King has to look after his own state. At the same time he has to oversee other states that have no Rulers, and that makes him less focused. He delegates more authority and responsibility to the Board of Councils in making decisions and he just endorses the decisions. But the current King is more particular as he also wants to look at the working papers before endorsing the Council's decisions. Previously there were cases when the King refused to endorse the Council's decision, instead he warranted his decisions. But that was very rare!"*

7.4 Strategic Planning in SIRCs/*Baytulmal* Institutions

The introduction of strategic planning in the Malaysian public sector was primarily to promote effective and efficient public service deliveries, thus enhancing the public accountability of these organisations. Strategic planning facilitates decision-makers and planners to think and act strategically in attaining organisational goals and objectives (Bryson 1995).

7.4.1 An Overview of Strategic Planning

The interview survey confirmed the results of the questionnaire survey that more than eighty-percent of SIRCs/*baytulmal* institutions had adopted strategic planning to a certain extent. However, the interview survey discovered that the state of strategic planning in the majority of SIRCs/*baytulmal* institutions was still at the infancy stage. Based on discussions with interviewees, there was also a high degree of variations in the implementation of the strategic planning among SIRCs/*baytulmal* institutions. It could be a mere uncoordinated planning and an informal approach at the discretion of individual departments or divisions in some organisations to a comprehensive strategic planning involving external experts with diverse background. This situation was described by an Administrative Executive of SIRC L in the following comment:

> *"Previously, we did have some form of planning but they were not systematic and coordinated. Although we had plans on paper, they were restricted to individual divisions or units only. Other divisions or units and even the top management were not aware of the targets of the divisions or units. Generally, it was the initiative of each division or unit to set the targets. Only now that we have started to have systematic planning."*

Furthermore, participants in the interview survey highlighted that strategic planning was only introduced in SIRCs/*baytulmal* institutions in the last five years by MAMPU. It had also provided SIRCs/*baytulmal* institutions with relevant inputs to assist with the formulation of strategic planning framework. Despite receiving the relevant support from MAMPU, only a very few numbers of SIRCs/*baytulmal* institutions emerged to have accomplished the implementation of strategic planning while the rest of them were still in the formulation stage of strategic planning as described by an official responsible for the finance and administrative division:

"MAMPU initiated the standardisation of this strategic planning sometimes two or three years back. SIRCs were invited to attend a workshop on strategic planning. Interestingly, the format is ready for us, and in fact some of the strategies and actions were suggested for standardisation purposes. So, our part (SIRCs/baytulmal institutions), basically, is to think of the timescale."

7.4.2 The Implementation of Strategic Planning

The interview survey discovered a number of reasons for SIRCs/*baytulmal* institutions to engage strategic planning. Bryson (1995) argued that organisations engaged with strategic planning for reasons of prioritising activities and resources, meeting directives of superior authorities or funders' requirements, recuperating from organisational mishaps, educating and revitalising the organisation or simply legitimising their existence due to the widespread practice of the technique.
In SIRC F, the top management plays a vital role in steering and spearheading the implementation of strategic planning. A senior officer of the large and self-funded SIRC indicated that the top management had managed to pull personnel from all levels to working together in a team to fulfil their roles and meet their responsibilities set in the planning framework. He also disclosed that the entire organisation seems to be motivated to work within the strategic planning framework to achive the goals set by the top management. The impact of strategic planning on the overall operations of SIRC F was described by the Head of the *Waqf* Unit as follows:

"In essence, the organisation (i.e. SIRC F) has moved forward based on the strategic planning. The top management and the staff in the organisation accept the aspiration and work together very well; indirectly the process of strategic planning has educated all staff."

It was argued that the implementation of strategic planning may also indicate a sign of personnal leadership apart from emulating good business practices (Ugboro et al. 2011). Discussion with participants from these SIRCs revealed that strong commitment from the top management to improve the efficiency of resources allocation system and fiscal operations had pushed them to engage in the strategic planning. For instance, SIRC

L had seriously invested considerable efforts in strategic planning under the new CEO, who has vast experience in the public administration. The accountant of the SIRC L described the expectation of the organisation toward the newly implemented strategic planning as follows:

> *"Previously, we did not have strategic planning.Under the new CEO, and as from this year we have started with our six years' strategic planning, which means every year we have targets to be worked toward. Each division should now know their targets and direction as well as realising the challenges to be handled for the next six years. We hope the heads are also aware of the various stages involved, namely, the implementation and the reviews."*

In some instances, however, the urge to secure financial allocation had compelled them, particularly the self- and partially-funded ones to adopt strategic planning. It has long been argued that organisations need a compelling reason to undertake a strategic planning process and one of them was a financial crisis such as a deficit situation (Bryson 1988). Based on discussions with participants, the urge to secure financial assistance from the Federal government for the waqf development purposes has motivated SIRCs/*baytulmal* institutions to produce a strategic planning framework. In most of the cases, the economic assessments and the production of strategic planning framework were only undertaken for *waqf* assets and properties. The following comment by the Deputy Secretary of SIRC N describes the compelling reason for the production of strategic planning in SIRCs/*baytulmal* institutions:

> *"We just don't do any formal planning except for waqf development projects that receive financial assistance from the federal government. Only for these projects that we did prepare the project plans, specifications and estimated costs as these are required by them [JAWHAR] for the purpose of budget allocation. Apart from these projects, we just do it based on our discretion and with no proper planning as such."*

As noted in the preceding paragraphs, the underlying motivation of adopting strategic planning differs considerably between SIRCs/*baytulmal* institutions. The interview survey also suggested that larger SIRCs/*baytulmal* institutions are more engaged in comprehensive strategic planning activities than their smaller counterparts.

The larger organisations seem to have more access to financial resources and skilled manpower, which are vital for the implementation of strategic planning. In the case of non-profit organisations, Crittenden and Crittenden (2000) suggested that the complexity of the level of formal and written planning could vary with their organisational characteristics, among others include size (membership, staff size, annual budget or receipts and contributions), degree of professionalism among personnel and age of organisations.

7.4.2.1 Review of Strategic Planning

Although the results of the questionnaire survey reported in Chapter Six disclosed that more than ninety-percent of respondents indicated of conducting formal reviews for strategic planning, in practical most interviewees were hesitant to discuss the formal review process on strategic planning in depth. The majority of the interviewees revealed that the majority of SIRCs/*baytulmal* institutions were still at the preliminary stage of strategic planning. The implementation of strategic planning in most of the cases was relatively recent, with the majority of them have just started with the preliminaries of strategic planning in less than five years. Accordingly, the discussions on the reviews were focusing more on ensuring programmes and activities within the framework are undertaken according to the initial planning whilst their performance are yet to be looked into in the near future.

An exception to the above situation was in SIRC F, a large and self-funded organisation, where periodical reviews on the overall strategic planning were performed extensively. The reviews involved not only its top management but also external experts from a varied background as described by its Head of Waqf Unit in the following statement:

> *"We also deliberated the execution of strategic planning between now and 2015, which we have invited experts from various sectors to give their input: academicians, politicians, economists, social activists, religious groups and entrepreneurs. We also considered some adjustments to the strategic planning. We will try to synchronise the planning with State's strategic planning too. We really looked into what we could and should do for the next five years!"*

The inputs from the experts were useful for the improvement of the existing strategic planning, particularly, when aligning their strategic planning with the aspirations of the state government. Leaving the top management and the Board of Council to comprehend all aspects of strategic planning may not a good option as they were occupied with managerial operations, instead an executive committee for strategic planning was preferred (Siciliano 1996). Nonetheless, organisations need to be also cautious as committee members may be encumbered with other responsibilities, and give strategic planning a lower priority in view of the tough and often demanding work associated with planning.

7.5 Budgeting and Budgetary Control in SIRCs/*Baytulmal* Institutions

Budget preparation in the public sector requires intense commitment from personnel of different levels; practically converging policies drawn up by the top management with the needs and expectations of the public. Thus the major challenge in public sector budgeting practices was coercing these two segments of management in prioritising constrained resources to attain the objectives of the organisations. This study explored the budgeting and budgetary control practices in SIRCs/*baytulmal* institutions and revealed pertinent budgeting practices that may directly affect the effectiveness of resources allocation of these organisations.

7.5.1 An Overview of Budgeting and Budgetary Control

Based on the results of the questionnaire survey reported in Chapter Six, both the revenue (100% of responses) and expenditure (100% of responses) budgets constituted the annual budgets of all SIRCs/*baytulmal* institutions. Unsurprisingly, the interview survey confirmed the results, but the practices varied fairly significantly between these organisations. These results undoubtedly signalled that budgeting was the central focus in the managerial and fiscal operations of these organisations. Budgeting system in all

SIRCs/*baytulmal* institutions, with exception to two SIRCs, were predominantly input-oriented. The efficiency of budgets was measured by the level of input consumption measured in monetary value (i.e. expenditure) rather than the impact of resource utilisation. Almost all interviewees were in agreement that the following year budget allocation depended largely on the spending level of the current year.

The interview survey revealaed that the two SIRCs (SIRC B and SIRC E) adopted the performance-based budgeting system of MBS. The operating expenditure of these two SIRCs was substantially financed by State/Federal governments. The State-financed SIRC (SIRC B) had implemented MBS in 2004 while the Federal-financed SIRC (SIRC E) had just introduced MBS in 2010. Discussions with finance officials of these SIRCs revealed that the primary motivation for adopting MBS was to conform to the time frame and workflows of the State/Federal Treasury, where applicable. Commenting on the motivation to adopt MBS, an accountant of the State-financed SIRC said:

> *"Since the State government implements the MBS, we have to implement the same system as we need to prepare all documents in the same format for the budget submission. Every year the State government issues a circular letter on the preparation of budget. Normally we have to send the budget application to the state government by 15th April every year. Once they receive the application, they call me to discuss the budget figures. Our allocation, or state financial assistance as it is known, is from the Finance Section of the Secretary of State. It is disbursed in the form of a grant."*

The interview survey also revealed that participative budgeting seemed to gradually be introduced within the present budgeting system of SIRCs/*baytulmal* institutions. The budget preparation culture in all SIRCs/*baytulmal* institutions was seen as predominantly 'bottom-up". Delegation of responsibility and authority to the operational management, although limited, was evident particularly in the budget monitoring stage to ensure budget compliance. Surprisingly, a substantial number of SIRCs/*baytulmal* institutions operated their budgeting system manually despite the advent of e-government for the public sector organisations in Malaysia. Only less than a quarter of these institutions had a computerised budgeting system and thus the systems were not integrated with the accounting system and other subsidiary systems. Thus budgetary controls in most of these organisations that were based on manual data and untimely reporting of the budgetary control data became very challenging.

7.5.2 Budget Culture

Respondents in the questionnaire survey indicated that both the top and the operational management seemed to be actively involved in the budget preparation, budget execution and budget monitoring. The interview survey confirmed such involvement by these two management levels but the extent of involvement had not only differed at these stages of budgeting but also varied between SIRCs/*baytulmal* institutions. Participants in the interview survey confirmed the result of the questionnaire survey that the 'bottom-up' budget preparation culture was pre-dominant (97.0% of responses) in SIRCs/*baytulmal* institutions. Substantial numbers of interviewees indicated that delegation of operational authority and responsibility to operational managers had gradually been introduced as part of the budgeting culture in SIRCs/*baytulmal* institutions. This budgeting culture offered further strength to the budgeting process by allowing the input of current operational needs, particularly of their customers (Mohamad 2004).

Conversely, a concern highlighted by several finance officials was that the flexibility of operational authority and responsibility to operational managers was restricted to the technical aspects of budget execution and monitoring. This group of interviewees revealed that operational managers were only involved in monitoring budget compliance. The situation was particularly prevalent in small- or medium-sized and self- or partially-funded SIRCs, where even routine commitments and expenditure payments were directly under the control of the CEO. The absence of performance agreement was the likely factors for the restricted delegation of responsibility and authority to operational managers. Xavier (2009) argued that performance agreement that specified the responsibility and expectation of the top management toward the operational managers could be used as an accountability mechanism in the delegation of authority. The Chief Development Officer of SIRC M, a medium-sized and partially-funded organisation, briefly described the extent of the delegation of operational authority and responsibility in his organisation, which was also common in a number of organisationa as in the following:

"The authority to execute the budgets is delegated to each respective division but the authority to incur commitments or expenditure and payments is centralised to the controlling officer, namely, the Deputy Yang Di Pertua (Deputy CEO). That is his absolute authority!"

Although participants generally perceived that this management style sought to ensure the operational managers' spending adhered to the agreed budgets, the study perceived it was more likely due to uncoordinated financial management system. The organisations did not have an appropriate measure of accountability toward the operational managers. Accordingly, the presence of limited flexibility delegated to operational managers in the budget execution emerged to be more on creating awareness and disciplining personnel to control their spending rather than directing them to assess the impact of resource consumption. The following statement by a participant accountant encapsulates the current spirit of delegating operational authority and responsibility in these organisations:

"After two years being here, I have now managed to implement the system (budgeting system). They (operational managers) have to monitor their own budgets and of course expenditure as well. This year seems to be okay. If they are facing any shortage in the budget, it is up to their department to resolve the matter; they could either make a virement or transfer of allocation. We give them total flexibility in handling such matters so long they have the allocation in total."

Surprisingly, the key element of MBS, the 'let managers manage' also turned out to be very restrictively practised in the two SIRCs that adopted the Treasury budgeting system. The concept holds operational managers accountable for the management of resources (Mohamad 2004; Stiles et al. 2006). In return for the greater freedom and flexibility accorded to operational managers, they should be more efficient in the management of resources. Nevertheless, the delegation of authority and responsibility to operational managers in these SIRCs emerged as merely disciplining these managers in the consumption of resources rather than promoting the economy, efficiency and effectiveness of resources consumption. A participant accountant of the state-financed SIRC (SIRC B) described the actual practice of delegating operational authority and responsibility to operational managers in the organisation as follows:

> *"Now we have decentralised the budget execution. They (operational managers) used to blame us for the insufficient budget allocation. Now they have to manage the budget themselves and it is good that they can now understand why such shortages cropped up. They need to know how to handle shortages and find appropriate ways to resolve problems. Otherwise they could not proceed with their activities and payments. Now we really let them manage their budgets."*

In relation to the above discussion, the delegation of operational authority and responsibility to operational managers with no reference to the performance of resources utilisation would not lead to a noticeable improvement in resource allocation. Specifying the responsibilities and expectations of operational managers could act as accountability mechanism if there were delegation of authority and responsibility (Xavier 1996a; Xavier 2009).

7.5.3 Budget Orientation

As mentioned earlier in Chapter Four, the Malaysian public sector had introduced a performance-based budgeting system, known as MBS, to implemented by all public sector organisations. Nonetheless, participants in the interview survey indicated that all SIRCs/*Baytulmal* institutions, except for two SIRCs, did not implement MBS or made reference to the performance elements in MBS. Participants in the interview survey insisted that MBS was not relevant to their budgeting system due to the different types of finances. The budgeting system in these SIRCs/*baytulmal* institutions were focusing on resources consumption, which was measured by the level of expenditure despite the prevailing constrain of financial resources. Interviewees across these organisations revealed that the level of expenditure has been advocated as the budget efficiency indicator. They pointed out that a higher level of expenditure seemed to be favoured by the top management while a lower level of spending was perceived as inefficient budget management, which was also prevalent in some of the Federal government departments or agencies (Mohamad 2004). This is in contrary to performance-based budgeting system that measure efficiency on the inputs that are translated into outputs, and the effectiveness with which they achieve outcomes, the ultimate ends of policy (Pollitt 1986). The consequent of incurring lower level of expenditure would be a lower budget baseline in the following year, generally perceived as a 'punishment' for not meeting the target expenditure level set by the management. For instance, efforts of prudent spending undertaken in SIRC D, an indication of economic and efficient utilisation of constrained resources, was regarded as an unfavourable actions by its top management. Commenting on the expenditure-oriented dimension that was widely practised in SIRCs/*Baytulmal* institutions, the Accountant of SIRC D (medium-sized and partially-funded) said:

> *"It became an issue here when we were prudent in our spending. Some members of the top management still stick to the old spending culture that regarded prudent spending means not efficient. So we were reminded of this aspect of prudent spending every now and then."*

Based on the above discussions, the budget dimension practiced in these organisations almost made no direct link between the input consumption and the production of output or outcome of the programmes or activities. Surprisingly, linking the consumption of resources (input) and their impact (output or outcomes) was also not obviously evident either in SIRCs that adopted the MBS. A link between inputs and performance of the resources consumption serves to promote accountability in the use of resources (Xavier 2009). Interviews with participants revealed that the assessment of the outcomes of specific resource utilisation that is pertinent in MBS was not practically implemented in actual practice in these organisations. It seems that the adoption of MBS was superficially to conform to the time frame and the workflows of the financial providers, State/Federal Treasury. The accountant of SIRC B, which is fully financed by state government, confirmed the practise of expenditure-oriented dimension of budget efficiency in the SIRC concerned as in the following statement:

> *"We would normally approve the base for expenditure based on the last year's actual expenditure and also take into account any one-off, if the division spent less, their base for expenditure will be lowered accordingly.'*

However, the Accountant of SIRC L strongly insisted that the expenditure-oriented dimension advocated in almost all SIRCs/*baytulmal* institutions was not entirely the same as that practised in the rest of public sector due to the different nature of their finances.

These organisations had always to be cautious of the spending even though having the understanding to spend most of the budgeted allocation to demonstrate the accomplishment of budget objectives. Essentially these organisations, in particular, the self-funded ones could only spend what they actually received or generated. In effect, these organisations had to strike the balance between attaining competing budget objectives and the limited financial resources. The accountant related the case of her organisation, SIRC L, which the top management stressed both aspects: the attainment of organisational goals and the efficiency of the budget in the following statement:

> *"In our case, we could say it's like a company; we would be as prudent as we could. At the same time, the government style of budget management does not mean the government is not prudent in the spending; it just wants to ensure the attainment of its objectives. The ninety percent spending level for instance is just to ensure that the objectives of the government are met. That is from the expenditure perspective. As far as the revenue is concerned, we need to increase the revenue collection as much as we can (to sustain the expenditure), now we want to see the impact of our distribution (zakah) and not merely evaluate on the amount being distributed. Will the distribution to the poor really help them out of poverty?"*

7.5.4 Budget Allocation Framework

Budget allocation is crucial in SIRCs/*baytulmal* institutions as they have direct implications in shaping the organisational programmes and activities, and the achievement of organisational policies, for two reasons. First, more than sixty percent of these organisations depended purely on their receipts and income to finance their operational expenditures and the other thirty percent received only a very little financial support from State governments. Only two SIRCs had their operational expenditure substantially funded by the state/federal government. Second, the majority of the assets and properties as well as funds managed directly by SIRCs/*baytulmal* institutions are religiously-related and therefore subject to religious restrictions or special injunctions in their utilisation. The main composition of the revenue budgets are *zakah* collection, rental income from *baytulmal* and *waqf* properties, and public donations. In several of these organisations, cash *waqf* constitutes the revenue budgets. This section presents the information obtained through semi-structured interviews on the budget allocation covering aspects of the basis of budget, budget responsibility centres, budget screening procedures and budget execution.

7.5.4.1 Basis of the Budget

Participants in the interviews indicated that incremental basis was widely used as the basis for annual budgets in SIRCs/*baytulmal* institutions. The basis necessitated the following year's budgets be estimated based on the actual spending of the current year with adjustments for expansion or reduction in activities as well for inflationary effects. In other words, this incremental approach to budgeting takes the previous year's budget as a baseline and assumes that a similar trend in the organisation will continue in the future, at least for another year. It was thus expected that changes in these organisations were to be very gradual and normally planned ahead, as summarised by one of the interviewees:

> *"In our case the budget forecast for 2011 will be based on our actual expenditure in 2010. Based on our experience, there will not be many changes. The only important thing that all heads have to be aware of is the availability of the source of finance, otherwise it will be ok."*

The widespread practice of the incremental budgeting in SIRCs/*baytulmal* institutions was arguably attributable to its straightforward (i.e. easy) method in determining the budget baseline with simple adjustments for inflationary effects, one-offs and expansion or reduction in activities. Taking into account that the vast majority of members of staff had no accounting-related educational background or adequate exposure to similar accounting-related aspects, the incremental method of budgeting was practical and realistic for SIRCs/*baytulmal* institutions. An Executive Officer of SIRC B, who has no accounting-related education, expressed his anxiety about having to deal with financial matters in his organisation as follows:

> *"Of course, initially it was tricky for us to handle these accounting affairs as most of us had religious education only. Over the time we managed to overcome it and now it's part of our routine. But we still need training on the areas."*

Furthermore, the interview survey also discovered that the incremental basis was employed to set the baseline of Expenditure Target (ET) by SIRCs that adopted the MBS. The ET contains three elements, namely existing policies, new policies, and one-offs. One-off events are events or activities that occur only in a particular budget year, and not in the subsequent year. Fundamentally, the total expenditure target for the year comprises budgeted expenditures for the existing policies, which are in fact the recurring expenditure from the same policies in the previous years. Commenting on the computation of the ET in her organisation, an Accountant of SIRC E (Federal-financed SIRC) said:

> *"The Expenditure Target is based on the last year's actual spending minus one-offs. If they spend less than the allocation, they will get less the following year. For example, the Baytulmal Division was allocated RM40million to spend in this year, but up until now they have not spent a cent, so there's a possibility that the expenditure target for the following year will be cut accordingly."*

Despite employing the incremental basis, the preparation of budgets in SIRCs/*baytulmal* institutions must always be cautious of the anticipated trends in revenues in the following year. The trend in the *zakah* collection generally triggered the level of the expenditure budgets since it constituted significantly or almost all of the revenues of SIRCs/*baytulmal* institutions. Arguably, the incremental basis in budgeting does not motivate managers to review the impact of resources utilisation and compel them to develop new ideas for the future. As such, the mobilisation and prioritisation of the restricted resources and funds was not directly related to the impact of their consumption. Nonetheless, based on the interview survey, SIRCs/*baytulmal* institutions seemed to be generally comfortable and content with the current mechanism for the budget preparation.

7.5.4.2 Budget Responsibility Centre

The budget responsibility centre structure is vital in facilitating the allocation of authority and control to relevant heads or managers over all resources and outcomes of their consumption. In other words, the structure of responsibility centre must enable an organisation to assess the impact of resources allocation. The interview survey revealed the existence of different types of responsibility centres in SIRCs/*Baytulmal* institutions, namely, administrative functions, *Kumpulan Wang* (Funds) and *zakah* beneficiaries (*asnaf*).

It was discovered that slightly more than fifty percent of SIRCs/*baytulmal* institutions had designed the responsibility centres for the budget allocation purposes based on the administrative structure, namely, divisions/departments and district offices. Under this structure, resources would be directly allocated to various departments/divisions and district offices, with the heads being held accountable for the performance of resources consumed. Physical inspection of the budget documents of these organisations confirmed the existence of the responsibility centre for resources allocation to heads of divisions/departments (or operational managers) and district offices. In other words, each respective head of division/department was responsible for the performance of resources consumption under his/her control.

Further, the responsibility centre that was based on the funds (known as *Kumpulan Wang)* aimed to reflect the funds being maintained by SIRCs/*baytulmal* institutions. This type of responsibility centre did not appear to be perfectly reflecting the organisational structure and therefore could obscure the allocation of authority and control to operational managers. However, the overall operations were managed in accordance with the different types of funds maintained by these organisations. The fund-based responsibility centre necessitated the preparation of budgets for each fund maintained, as described by the accountant below:

> *"We have to prepare five budgets, each representing the Kumpulan Wang (Fund). First is the Operational and Development Fund. The funding comes from the state government that basically covers our emoluments. Second is the Zakah Fund. Zakah collection is distributed to eight asnaf and we receive the 'amil' portion of one-eighth. Third is Wakaf Am (Unrestricted Waqf), with which we will prepare both the revenue and expenditure budgets. Fourth is the Sumber Am (General Resources) also known as Baitulmal. Fifth is the Ar-Rahnu (Islamic Pawnbroking)."*

In several of these SIRCs, however, participants revealed that organisations attempted to reflect the existing types of funds maintained in the administrative structure with the creation of typical *Zakah* Unit, *Baytulmal* Unit and *Waqf* Unit. A manager was assigned to each of these administrative units in an attempt to facilitate the delegation of responsibility and authority to operational managers. Under this modified structure of responsibility centre, a manager is held responsible for the performance of each of the respective fund under his/her control.

Interestingly, the interview survey also discovered the existence of a structure of responsibility centre that was based on the *asnaf* of *zakah* (*zakah* beneficiaries). The reason for having this type of responsibility centre was to reflect the core activities of the organisations, which is the management of *zakah*. However, the structure of this responsibility does not facilitate the allocation of authority and responsibility to the heads of divisions/departments or any functional structure in the organisation. Since there was no assignment of a manager to each of the *asnaf*, the financial management was essentially centralised at the Finance Division. In other words, delegation of operational authority and responsibility was not in exixtence in the organisation featuring this type of responsibility centre. The finance official admitted that assessments on the consumption of resources were problematic under this structure of responsibility centre. In describing the budgeting processes based on the responsibility centre of *asnaf*, the Accountant of SIRC J said:

> *"We do not prepare the budgets based on districts. We are different from other SIRCs in terms of budget preparation. They prepare budgets based on departments. District offices are not cost centres for our budgets, the bulk of our revenue comes from zakah and we have to distribute the collection without delay. Mainly our activities are linked to the zakah distribution. Thus we allocate our budgets based on the asnaf (zakah group of beneficiaries). The asnaf are regarded as cost centres. It is complicated. We list down all activities for each asnaf. For instance, for asnaf fakir, there is a code of emolument. This pays for the emolument of the staff in charge of the asnaf. Another asnaf, 'amil, pays the emolument and allowances at the headquarters."*

7.5.4.3 Budget Screening

Discussion with participants revealed that the budget allocation in SIRCs/*baytulmal* institutions went through several stages of deliberations, namely the technical examination, the *Shari'ah* screening and the Board of Councils' scrutiny before being finally approved by the Ruler for execution. Technical screenings in SIRCs/*baytulmal* institutions primarily involved detailed examinations on the magnitude and justification of budget proposals prepared by the heads of responsibility centres. Based on discussions with participants, technical screenings are typically carried out at two different stages. The first level of technical screening only involves heads of responsibility centres, which is normally initiated by the Finance Division acting as the coordinator. The second level of screening is a formal one and involves a thorough budget examination. This stage of screening is normally attended by the Heads of Divisions/Departments and the CEO. The participation of the top management at this stage is crucial as it might require strategic planning and prioritising that cannot be left to lower management (Xavier 1996b). Participants generally regarded this stage of budget examination as the most crucial one as practically the Chairperson (normally the CEO) would be determining the budget for each of the budget responsibility centre. This is consistent with the perception of respondents in the questionnaire survey that the CEO is vested with the key responsibility in the budget allocation. Thus the meeting would always be regarded as a 'battlefield' for the operational managers to secure their budget requests since negotiation on the budget allocation was expected to be minimal beyond the technical screening. Flexibility with regard to budget allocation did exist but a participant accountant confirmed that it required to be supported with reasonable justification as in the following comment:

> "*We would normally consider additional budgets provided the requests were justified. Let's say they requested RM1million, there should be detailed plans for that RM1million together with justifications or reasons for asking for that amount. The management would look into it.*"

On the other hand, the *Shari'ah* screening procedure was vital in the budget allocation famework of SIRCs/*baytulmal* institutions. It sought to ensure that the general conduct of SIRCs/*baytulmal* institutions in the utilisation of resources entrusted to them resources consumption would not be associated with prohibited and unethical activities from the perspectives of the *Shari'ah*. The practice of this *Shari'ah* screening varies between SIRCs/*baytulmal* institutions, which could either be undertaken by the *Fatwa*[61] Committee right after the technical screening or by the Board of Councils whose members include credible religious authorities, namely, the Mufti, the Deputy Mufti and the Chief *Shari'ah* judge. In other words, not all SIRCs/*baytulmal* institutions had integrated the *Shari'ah* screening in the budget allocation framework. Otherwise, the opinion of the Fatwa Committee or relevant religious officials would be sought if doubtful circumstances arose during the budget execution. In the following statement, the accountant of SIRC D, a medium-sized and self-funded, described the *Shari'ah* screening procedure as a prerequisite for the budget approval by higher authorities in the organisation:

> *"Once the budget has been thoroughly discussed at the department level, it will then be forwarded to the Fatwa Committee for Shari'ah screening before being passed on further to the Board of Councils. The committee is chaired by the Datuk Mufti. The procedure is to ensure that the activities proposed in the budget comply with the Shari'ah rulings, particularly in relation to zakah distribution."*

Interestingly, in one remote case, the *Shari'ah* screening procedure was used as a 'passport' for an endorsement of the annual budgets by higher authorities. Based on the observation of an interviewee, no further query is to be made by the Board of Councils once the budgets had been approved by the Fatwa Committee. The Secretary of the Board of Councils disclosed the situation of the *Shari'ah* screening being a 'passport' in the budget approval of SIRC G is illustrated by the following statement:

> *"When I presented the budget to the Board of Councils and confirmed that it has been screened by the Fatwa Committee, in most of the cases, the Board of Councils would accept and endorse the budget without many questions. I believe they acknowledge who they are in terms of Shari'ah."*

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[61] *Fatwa* (pl. *fatawa*) is an advisory opinion issued by a recognized authority on law and tradition in answer to a specific question. Although typically focused on legal matters, fatwa also treat more general religious issues, including theology, philosophy, creeds, and ibadat (religious obligations or acts of worship). The issuer of fatwa known as a mufti, whose authority derives from his knowledge of law and tradition, function independently of the judicial system, indeed often privately.

Unlike in the preceding discussions, the *Shari'ah* screening procedure does not form part of the budget approval framework in a few numbers of SIRCs/*baytulmal* institutions. In this situation, the Board of Councils would normally take the responsibility for ensuring the conformity of the budgets to the *Shari'ah* prescriptions. This is possible since the Board of Councils has the membership of the Mufti and Chief *Shari'ah* Judge who have the religious authority to determine the adherence of budgets to the *Shari'ah*. The opinion of the Fatwa Committee or relevant religious officials was also sought if doubtful circumstances arose during the budget execution. In SIRC L, such opinions of the relevant religious officials would only be sought in cases when there were doubtful circumstances, as indicated by the Accountant below:

> *"So far we do not refer our budget to the Fatwa Committee during the budget preparation. However, if we are not certain of the Shari'ah compliance for certain transactions during the budget execution, we would normally bring the matter up to the respective committee: zakah, waqf or baytulmal If these committees could not resolve the issue, only then would we bring it up to the Fatwa Committee."*

Budget documents demonstrate the extent of stewardship and accountability of SIRCs/*baytulmal* institutions in managing the Islamic assets and funds. Thorough screening procedures including the *Shari'ah* screening would enhance the credibility of a budget as a mechanism for accountability in SIRCs/*baytulmal* institutions. Essentially, funders, contributors and financiers were assured that *zakah* collections were distributed according to the *zakah* rules, *waqf* resources were utilised with respect to the terms of *waqf* and *baytulmal* resources were expended largely for the benefit of the Muslim community.

7.5.4.4 Budget Approval Flow

As discussed in the preceding section, a typical flow of the annual budget approval in these organisations involved thorough budget screenings similar to other public sector organisations in Malaysia. However, apart from ordinary technical screening, *Shari'ah* screening was performed in a number of SIRCs/*baytulmal* institutions prior to further scrutiny by the Board of Councils. Participants insisted that annual budgets needed to be collectively endorsed by the Board of Councils following the earlier technical and *Shari'ah* screenings. The endorsement by the Board of Councils was a confirmation that the spending of the organisations would be consistent with the existing policies and objectives of the organisations. This is consistent with the results of the questionnaire survey reported in Chapter Six, that Board of Councils (47.2%) and the CEO (44.4%) appeared to share the key responsibility in the budget allocation of SIRCs/*Baytulmal* institutions. The commitment of the CEO in the budget allocation was discussed earlier in the technical budget screening at the departmental level.

The interview survey also disclosed that the final approval of annual budgets in SIRCs/*baytulmal* institutions could take place at different levels of authority depending on the legal directives in the respective state enactments. In most instances, the annual budgets were brought before the relevant state legislative authorities (such as the respective SLA) for public debates by members of the SLA since annual budgets constituted legal documents. Upon approval by the relevant state legislative authorities, the annual budgets were presented to the Ruler or the King (for states placed directly under the King), as the head of Islam, for the final royal consent. A typical budget allocation processes was described by the accountant of SIRC B, a medium-sized and partially-funded organisation, as follows:

> *"Initially, the heads have meeting with their respective staff for the first level of budget inputs. In the second stage, these heads meet in a Heads of Division Meeting where detailed discussion on the budget is held. Further screening with the CEO is done at the Finance Committee meeting before being tabled to the Board of Councils for endorsement. The budget is then presented to the Sultan (the Ruler) for royal approval."*

However, in several SIRCs which were placed directly under the King, the budgets would only be presented to the *Majlis Mesyuarat Kerajaan Negeri* (State Government Meeting Council) for the final budget examination prior to the presentation to the King for the royal assent. This typical budget approval was described by the accountant of SIRC H that is placed directly under the King as follow:

"The budgets have to go through at least three meetings; the management meeting attended by all heads (of departments), the Council meeting and the Majlis Mesyuarat Kerajaan Negeri. Only then it will be submitted to the King for approval."

However, there were two exceptions to the typical flow of budget allocation discussed in the preceding paragraphs. First, the budget approval in BM B that was held responsible for managing and controlling the Islamic resources entrusted to SIRC P was finalised at the Board of Councils level only (and at neither State Legislative Assembly nor *Majlis Mesyuarat Kerajaan Negeri*). According to its Senior Manager, annual budgets were not publicly debated in either of the meetings due to the sensitive nature of information on the Islamic resources in the state concerned. Second, annual budgets of SIRC E needed to be examined and debated in the Parliament prior to the presentation the King for his consent. This is due to the position of SIRC E as a Federal government agency that is placed directly under the control of the Prime Minister's Department.

It became apparent from the above discussion that the legitimacy of a budget SIRCs/*baytulmal* institutions is upon receiving the royal assent of the Ruler/King. This, in other words, has enacted the annual budget as a legal document and public spending based on this document is then legitimate. The budget would then be gazetted at the state repository for public access.

7.5.5 Budgetary Control

Budgetary preparation and budgetary control are at the heart of management accounting in the public sector (Pendlebury and Karbhari 1997). In SIRCs/*baytulmal* institutions, budgetary control created enormous pressure on the management due to the prevailing constraint in financial resources. Consequently, as indicated by the vast majority of participants, budgetary control system in SIRCs/*baytulmal* institutions, particularly, the self-funded ones was apparently very stringent, chiefly to assure the occurrences of over-spending were minimal. The monitoring of revenue collection turned out to be extremely critical in the budget management as it not only triggered the level of expenditure, but more importantly, shaped the overall functions of the organisations. Thus as part of the strict approach of budgetary control, the level of expenditure were strictly determined by the level of revenue projected in the following year. The assistant accountant of SIRC C (self-funded) briefly described that the stringent budgetary controls in the organisation was imposed at the preparation stage of annual budgets:

> *"The budgetary control is in fact begins at the preparation stage. The expenditure budget is prepared based on the trend of the forecast revenues. Definitely our spending plan would never be beyond the expected income."*

The above statement was echoed by an accountant of another self-funded SIRC (SIRC J) who described that strict budgetary controls were also imposed in the organisation due to financial limitations:

> *"The budget is always very tight. The person in charge ensures there is no 'negative' spending. We are always cautious and prudent in our spending. Basically we just run activities according to our budget."*

Discussions with interviewees revealed that the critical state of financial position necessitated the involvement of top management, particularly the CEO in the strict monitoring of financial commitments to guarantee budget compliance by operational managers. Under these conditions, the financial management operations were primarily centralised at the Finance Department. In other words, there was very little delegation of authority and responsibility with regards to budget execution to operational managers. Although this appeared to preserve bureaucratic decision-makings, participants insisted that the top management involvement in the budgetary controls was crucial for their financial 'survival'. A typical stringent budgetary control can also be found in SIRC M (partially-funded) as described by its accountant in the following statement:

> *"We centralised the approval of expenditure commitment to the Dato' Deputy as the CEO. All commitments need to be approved by him even if we were to spend RM10. The system here forces him to take charge of the budgets. We could 'survive' since the top management monitors the expenditure very closely. That makes us, at the operational level, very cautious in spending. I believe the role of the top management is important to make sure the budget is sufficient."*

Interviewees also indicated the presence of close monitoring by the top management on the funds' movements between divisions/departments (responsibility centres). The delegation of responsibility and authority to operational managers in some SIRCs/*baytulmal* institutions was restricted to virements or transfers of funds within divisions/departments only, while virements across divisions/departments required the approval of CEO. This extent of budgetary control was also present in SIRCs that adopted MBS. An Executive Officer of the Baitulmal Unit (SIRC B) commented on the authority for virements in his organisation, as follows:

> *"In controlling the budget, if the divisions were to make any transfer of allocation between division (cross transfer), the approval can only be given by Dato' (i.e CEO)!"*

Despite operating their finances independently from the Treasury system, the vote book system was widely in place in SIRCs/*baytulmal* institutions. A vote book essentially records details on the budgets, the total commitment, the balance of the commitment and the balance of unused budgets. The information contained in the vote book was perceived to be the most updated budget information. The vote book system was insisted upon as an important element of budgetary control system in SIRCs/*baytulmal* institutions by most of the finance officials interviewed in the survey. Almost all vote books are maintained manually since the vast majority of these organisations still maintained the budgeting processes manually. The emphasis on the vote book system for budgetary control purposes in SIRCs/*baytulmal* institutions was reflected by an accountant of SIRC B in the following statement:

> *"The staff generally observes the budgetary control procedures in the vote book because it links to the payment system. If the budget is insufficient, payments cannot be processed and they start looking for virement or transfer. It's nerve-wrecking for them. They cannot even key in the particulars for payment purposes, it goes blank right away! So every month I (i.e. Finance Department) would print the vote book statement and they have to endorse the accuracy of the statement. They really have to make sure that the vote is not negative."*

Under this vote book system, the head of the division/department would be responsible for the budgets under his/her control. The vote book system enabled the detailed monitoring of the budget allocation as well as its movement within or across departments/divisions. For instance, the head of the *Waqf* Unit of SIRC L described the detailed tasks that he was expected to perform under the vote book system as follows:

> *"We have to control the budget ourselves. Each division is expected to undertake the budget review. I have to print the vote book, check through it and finally sign it to prove I have done my work. I need to check every single part of the vote book."*

7.5.5.1 Reporting of Budgetary Data

Respondents in the questionnaire survey indicated that data on actual expenditure were essentially available in hardcopy printouts (94.4%) and were delivered to respective heads of division/departments every month (80.5%) to facilitate the budgetary control activities. The vast majority of participants in the interview survey confirmed that budgetary data were mainly furnished in the form of hardcopy reports and distributed to relevant operational managers on a monthly basis. About a quarter (25%) of SIRCs/*baytulmal* institutions have their budgetary information online, thus making possible for the operational managers to access the information at any time. In other words, only a small minority of these organisations furnished the information both via online access and hardcopy printouts. This is despite the advent of E-Government in the Malaysian public sector.

Participants indicated that monthly data processing was widely adopted in SIRCs/*baytulmal* institutions, which resulted in the untimely reporting of budgetary information for budgetary control purposes. Data on the actual spending were practically two months late when it reached the heads of division/department. Despite the unreliable data for budgetary control purposes, most interviewees indicated relying significantly on information reported in the hardcopy printouts. If these organisations depended solely upon the information reported in the budgetary report, SIRCs/*baytulmal* institutions could be at risk of being misled in undertaking corrective actions.

Online budgetary data was very limited since only a small number (28%) of SIRCs/*baytulmal* institutions had integrated their financial management system; integrating the budgeting system with the accounting system and relevant subsidiary systems, namely rental income or receipts. The integrated financial management system provided another means of budgetary control by updating the vote book automatically. This built-in mechanism allows a more effective budgetary control by halting any payment with insufficient funds. Commenting on the automatic control within the integrated financial management system, an Executive Officer of SIRC C who was responsible for the overall budget administration stated succinctly:

> *"The system does the control. More importantly, payment would not get through if the budget was insufficient (negative figures) and they started to get panicked!"*

Overall, inadequate information is one of the characteristics of weak budgetary control systems. This usually begins with unreliable and late input of information on expenditure and costs, which are crucial to decision makings and effective expenditure control. Minimising the effect of out-of-date data could be the underlying reason for maintaining the vote book system in SIRCs/*baytulmal* institutions.

7.5.5.2 Budget Review

Another important aspect of budgetary control is the budget review. Particularly in self-funded SIRCs/*baytulmal* institutions that depended largely on their receipts and collections, the budget does not guarantee the availability of funds for spending. Budget reviews could help the management to evaluate the performance of budgets and trigger further actions, as described by the Accountant of SIRC F (large and self-funded) in the following statement:

"Normally we could see the trend of the collection by the middle of the year. If the trend in the receipts shows that we would not be able to achieve the targets, maybe just eighty-percent of the targeted figures, then we need to adjust our expenditure accordingly and no longer base on the initial budget figures."

The results of the questionnaire survey reported in Chapter Six revealed that budget monitoring remained an internal managerial operation with very insignificant involvement from external parties such as the Federal/State Treasury and external consultants. The top management appeared to share the responsibility for the budget monitoring with the operational managers who had direct contact with staff and personnel. The interview survey disclosed that the top management shared the key responsibility of monitoring the budget with the operational managers. When the financial position was very tight, the involvement of the top management in monitoring the spending level and performance of receipts was crucial. Operational managers were naturally cautious in their spending when there was active involvement of the top management in the budget execution. In addition, the top management could directly call upon appropriate strategies if targets set for the budgets were not met. The accountant of SIRC F briefly described the involvement of both the top management and the operational management in monitoring the performance of revenue budgets, as in the following comment:

"The top management is closely monitoring the performance of both the revenue and expenditure. We have a meeting once in every two months to discuss the performance of the receipts, in which the Finance Department will be reporting the performance of receipts, the variance between forecast figures and the actual performance. We would evaluate whether we can achieve the targeted figures or otherwise. For example if by the month of June, the actual receipts did not meet the targeted figures, we would request the Mal Division (Assets Division) to look again at their strategies to improve the collection of revenues, be it rental income or zakah collection."

Similarly, the involvement of top management in the budget monitoring together with the operational management was also evident in SIRC L, as described by its Accountant below:

"The budget performance and the execution of the budget itself is discussed in the management meeting. I myself will distribute the figures on the budget performance to each head of division and later presented the same data in the management meeting. The management is not only concerned with figures but also the status or performance of activities conducted by each division. The CEO *himself normally asks each head of division to present the progress reports of activities under his/her control. For instance, the head of Zakah Distribution Division would have to report the impact of the monitoring exercise on the recipients."*

At the same time, participants indicated that budget reviews in SIRCs/*baytulmal* institutions were performed either in a formal meeting attended by relevant officials or informally by each head of departments/divisions upon receiving the budgetary reports every months. These findings lent a support to the results of the questionnaire survey reported in Chapter Six, that budget reviews were most commonly conducted on monthly basis. In addition, it was generally agreed by participants that the monthly budget reviews were conducted by respective heads of division/department upon receiving the monthly report of expenditure, as noted in the earlier section. The monthly reports appeared to trigger the monthly budget reviews by the heads of departments/divisions as commented on by the Accountant of SIRC F below:

"The budget review can be done every month by the divisions. I (Finance Division)would normally issue this budget report every month, so that they can check they budget performance every month."

Apart from the monthly budget review, a formal budget review was also performed quarterly by almost all SIRCs/*baytulmal* institutions. This finding confirmed the results of the questionnaire survey reported in Chapter Six, that the quarterly frequency of budget reviews was the most common frequency of budget reviews in these organisations. This formal review is a requirement of the AI rating assessments conducted by the NAD. The formal reviews were undertaken by the Committee of Financial Management and Accounts, which is responsible for the overall position of finances, including the performance of budgets. Prior to this AI rating assessment, such formal reviews were also undertaken by several SIRCs/*baytulmal* institutions but the frequency of the reviews differed quite considerably, while some of them did not have any formal budget review at all.

The monthly and quarterly frequencies of budget reviews, however, were criticised for not being very helpful for the budgetary control purposes since they were using obsolete information to necessitate corrective actions. Under both of these circumstances, the data in the actual expenditure furnished by the monthly reports could be de delayed for almost two months due to the monthly data processing in these organisations. In minimising the impact of the unreliable data, all SIRCs/*baytulmal* institutions adopted the Treasury’s vote book system. Otherwise, the budgetary controls in SIRCs/*baytulmal* institutions could have been greatly misled by the outdated data provided in the reports.

7.6 Performance Measurement in SIRCs/*Baytulmal* Institutions

As mentioned in Chapter Two, performance measurement is one of the elements in the Malaysian government’s reform initiatives to improve the public service deliveries and hence enhance its accountability (Kloot 1999; Greiling 2005). The section presents an overview of the performance measurement practices covering the performance monitoring and challenges encountered by SIRCs/*baytulmal* institutions in undertaking performance measurement. The section also discusses the AI introduced by the NAD in SIRCs/*baytulmal* institutions.

7.6.1 Overview of Performance Measurement

Discussions with participants revealed that performance measurement were at some extent exists in SIRCs/*baytulmal* institutions and thus supported the results of the questionnaire survey in Chapter Six. The responses in the questionnaire survey were unanimous (100%) as to the existence of performance measurements in SIRCs/*baytulmal* institutions. However, there was evidence of a high degree of variations in the performance measurement practices in these organisations. Based on the interview survey, performance measurement initiatives in these organisations can be broadly categorised into three spectra, namely, KPIs, quality work culture initiatives, and remuneration-related performance measurement. So far, the adoption of these performance initiatives were ‘top-down’, primarily motivated by directives from superior authorities as highlighted by an Administrative Officer of SIRC C in the following comment:

> *“At the moment, it (the adoption) is more of a requirement. If there is a directive to implement any initiative, we will be working on it.”*

It was also indicated by the majority of participants in the interview survey that SIRCs/*baytulmal* institutions placed more emphasis on improving the quality of administrative environment, namely via the quality work culture and remuneration-related performance initiatives. There was very little emphasis on measuring the effectiveness and efficiency of core activities in the organisations using the Key Performance Indicators (KPIs).

7.6.2 Performance Indicators

The effectiveness of a performance measurement system depends on the appropriateness of performance indicators used in the measurement of the organisational performance. Chapter Six reported noticeable differences between the use of financial and non-financial indicators, with financial indicators being more commonly used than non-financial indicators. Just over eighty-five-percent (85%) of respondents indicated the use of financial indicators and the remainder indicated the employment of non-financial indicators. Conversely, the interview survey disclosed that non-financial indicators were more frequently used in SIRCs/*baytulmal* institutions. The most frequently-encountered indicators were concerned with procedural efficiency that related generally to the speed of responses for services provided by the organisations, such as the fourteen-day payment process. The dearth of financial indicators in SIRCs/*baytulmal* institutions, however, was most likely due to the problems in determining the input costs associated with specific outputs (Kloot 1999). So far the interviews discovered that there was very little use of unit cost for the budgetary control purposes. The absence of competitive environment in which these organisations are operating could have made them to feel content with the existing state of performance measurement. Pendlebury et al. (1994) discovered similar weaknesses among non-trading executive agencies in the UK. The contradictory results between the questionnaire survey and interview survey with regard to the commonly used performance indicators, however, was perhaps due to a greater emphasis on the performance of budgets within the organisations. As reported in the questionnaire survey in Chapter Six, the vast majority (94.5%) of senior managers in SIRCs/*baytulmal* institutions perceived that the annual budget served as an important performance measurement tool. On the premise of these results, performance measurement in SIRCs/*baytulmal* institutions seemed to refer primarily to financial indicators.

7.6.3 Key Performance Indicators (KPIs)

The use of Key Performance Indicators (KPIs) in measuring the performance of public sector in Malaysia was introduced in 2005 (Xavier 2009). Nonetheless the interview survey revealed that KPIs was barely evident in SIRCs/*Baytulmal* institutions. Accordingly, participants in the interviews were not keen to discuss in-depth enquiries about the performance measurement using the KPIs. However, it was disclosed that the difficulty of producing the appropriate data for the KPIs appeared to be one of the key factors hindering the adoption of this performance initiative. In terms of financial KPI, Hyndman & Anderson (198) and Kloot (1999) shared a similar concern that the absence of explicit and quantifiable measures in the public sector has made the performance criterion problematic. Similarly, the nature of services in most public sector organisations led to problems in measuring accurately the output, the outcomes of the services and conflicting interpretations of the results. Commenting on the circumstances, the Accountant of SIRC D (small and partially-funded) expressed his perplexity about the weak data information system in his organisation:

"Even if we have measurable indicators and wanted to measure our performance, we just could not do it because the data is not available. For instance, if I were to measure the efficiency of the fourteen-day payment process when the whole payment process is done manually, I just couldn't do that! Who is going to look for the information which is not structured and organised, and we have only one clerk to do all these tasks."

In the case of SIRC D, the use of KPIs was evident but they were restricted to financial performance, which was less reflective for the measurement of main activities in the organisation. The accountant of the SIRC was concerned that the indicators used in his organisation, which were essentially in absolute terms (e.g. percentage of collection or percentage of distribution), did not make any reference to the relationship between inputs and outputs or outcomes. In another instance, a Deputy CEO of SIRC E disclosed that his organisation was not ready to adopt the performance measurement based on KPIs or other performance initiatives. He emphasised that the organisation was focusing more on strengthening the administrative capacity after splitting from the administration of SIRD. Bale and Dale (1998) argued that stable finances and strong administrative support are among the pre-requisites for successful reforms in organisations. The following statement described the concern of the Deputy CEO of SIRC E:

"We (the SIRC) are still new. At the moment, the infrastructure here is very basic. We have just started to have an independent existence. Maybe in two years' time they could start talking about ISO, KPIs or 5S or other performance initiatives."

KPIs had just been recently introduced in SIRC B, a fully-funded organisation. Interestingly, the motivation for the introduction of the KPIs in the organisation was more on conforming to the recent trend among the public sector organisations in Malaysia. The management realised of the complexity of enumerating the performance the organisation and was therefore has sent members of staff to attend workshops. The workshop was expected not only to create awareness but also to gain knowledge on how to develop the KPIs for the measurement purposes. The organisation did not plan to engage external consultants to develop the KPIs due to limited finances as described by its accountant in the following statement:

> *"We just go along with the national agenda. Everybody seems to be doing KPI now. So, we just do it; we asked everyone (staff) to attend workshops to learn more of the KPI stuff. When they come back (in the organisation), they have to develop the KPIs themselves."*

However, one notable finding in the interview survey was that the use of KPIs in the performance measurement of a self-funded SIRC (i.e. SIRC G). The Senior Manager claimed that the organisation had started using the KPIs in 2006 in an attempt to assimilate corporate management style and culture, particularly in terms of cost efficiency and effectiveness. His concern for the cost effectiveness of programmes and activities in the organisation has urged him and the staff to ascertain the costs of inputs for one of their main activities, namely, the cost of processing applications. The costs of inputs for processing an application has now being used as a benchmark for evaluating similar activities in the entire organisation. His remark noted below summarised the commitment of his organisation toward cost effectiveness:

> *"We have been implementing our KPI system since 2006. Our target was to improve the efficiency of our administration costs and we managed to develop a target for it. In that year for instance, the cost of processing an application was RM8.36 and we are now determined to work towards RM1.00 per application!"*

7.6.4 Quality Work Culture Initiative

Quality-related initiatives such as the Total Quality Management (TQM), MS ISO 9000, Customer Relations and Clients' Charter were introduced in the Malaysian public sector to inculcate a high quality of administrative work culture and strengthen the civil services. The importance of these performance initiatives is that they provide the first impression of the civil services' administrative efficiency. The interview survey indicated that the vast majority of SIRCs/*baytulmal* institutions have adopted the Clients' Charter, MS ISO 9001 and the recently introduced 5S (Sort, Set in Order, Shine, Standardise, Sustain). However, the level of implementation for each of the initiatives varied considerably between SIRCs/*baytulmal* institutions.

Discussions with participants revealed that SIRCs/*baytulmal* institutions focused more on the Clients' Charter, particularly the fourteen-day payment process. The speed of payment processes has become one of the major concerns as it exemplifies the efficiency of public sector organisations. Thus this procedural indicator has been incorporated in the Treasury Instructions, and also appraised by the NAD for the AI rating purposes. Based on the interviews, SIRCs/*baytulmal* institutions appeared to put considerable efforts into improving the payment processing time in a bid to secure or maintain a high AI rating. However, it seems that the standard of the fourteen-day payment process was not always achievable in SIRCs/*baytulmal* institutions. The situation perhaps was rooted from a more fundamental reasons, in particular, inadequate training and exposure or ambiguity in work procedures and guidelines for the relevant personnel. In SIRC J, the accountant highlighted that payment processes in the organisation have been always delayed and not 'straightforward' as in her following comments:

> *"I am quite certain that we are not always being able to meet the fourteen-day target in processing payments. There were always problems in the purchases. They do not follow the proper workflow when making purchases. Local Orders (Purchase Orders) are not properly prepared, the vote book is not updated. In addition, the dates on the documents are sometimes inconsistent. So, we need clarifications and most of the time verifications from the staff concerned and these actions delay the whole process of payment."*

Essentially, organisations must be prepared to pay for the 'timeliness' by providing adequate supports to the operations or else it has to make the trade-off between timeliness and costs of the supports (Bale and Dale 1998). Participants blamed the delays were due to the extensive pre-requisites in the payment-processes of the public sector.

With regard to the adoption of MS ISO 9000 in SIRCs/*Baytulmal* institutions, interviews with participants revealed a less encouraging response to this administrative performance initiative. At the time when the interviews were carried out, only six SIRCs/*Baytulmal* institutions had been awarded ISO 9000 quality management despite the fact that it was introduced in the Malaysian public sector in 1996. In fact, more than half of them had been awarded the earlier version of MS ISO 9000 but were yet to work on obtaining the certification for the latest series of MS ISO 9000 (Version 2008). Concerning the benefits of the certification, most participants believed that MS ISO 9000 has compelled the organisations to undertake organisational reviews and thus improve their work standards. The following remark made by a senior official of SIRC H that had been certified with MS 9000 (Version 2008), encapsulated the benefits of ISO 9000 certification in SIRCs/*Baytulmal* institutions:

> *"The ISO forced us to have a systematic workflow, disciplining our staff to work according to the system. However, it was worthwhile. For instance, the filing system is just amazing. It enables us to retrieve information very fast as files are arranged according to title. I can simply ask for a file any time before going to meetings and more importantly, the contents are also superb! We have become more confident now with our job as compared to 2005 when I started working here."*

Interestingly, several other participants argued that SIRCs/*Baytulmal* institutions should be working on getting the MS ISO 9000 certification for crucial activities that would have a direct impact on customers such as the management of *zakah* distribution. At present, the certification of MS ISO 9000 was awarded for the management of *zakah* collection. This group of participants believed such an initiative would not only improve the performance and productivity of the organisations but would also have a profound impact on customers (i.e. *asnaf*), who are mostly in need of financial assistance. At the time when the study was undertaken, a *baytulmal* entity (i.e. BM B) had bravely worked for the MS 9000 certification on its *zakah* disbursement section and was awarded with the certification. It was claimed that zakah could be distributed within a week of beneficiaries applying for the financial assistance.

With regard to the latest initiative of 5S (Sort, Set in Order, Shine, Standardise, Sustain), which was introduced by MAMPU in 2010, responses from the participants in the study was divided. At the time when the interview survey was undertaken, only BM B had adopted comprehensively the 5S initiative, while several the vast majority of SIRCs/*baytulmal* institutions were still in the preparation stage for implementing the initiative. Although the majority of senior officials acknowledged that the implementation of 5S would create conducive working environment and cooperative culture among personnel, several participants expressed their dissatisfaction at having to meet the unrealistic expectations of various parties with a limited capacity, particularly human resources. In summary, there would be potential unintended outcomes resulting from the introduction of some performance measurement initiatives if organisations were not striking the right balance when implementing them (Mohamad 2004).

7.6.5 Remuneration-related Performance Measurement

The interviews also revealed that performance measurement undertaken in SIRCs was closely associated with the existing remuneration system. Interestingly, the use of the AWTs (Annual Work Targets) that were initially imposed in the civil services for remuneration and promotional purposes has been extended to other managerial operations in the organisations. In promoting greater accountability in organisations, performance agreements specifying the responsibilities and expectations of the management and personnel are vital (Xavier 2009). In several SIRCs, the AWTs served as performance agreements in which the AWTs for each member of staff were linked directly to targets in the strategic planning of the organisations. Several interviewees pointed out that their AWTs must now be aligned with the long-term objectives of the organisations. In a large and self-funded organisation, SIRC F, the AWTs were used as terms of reference in strategic planning. Linking the AWTs with the chosen strategy in the strategic planning is particularly important for the long-term survival of the organisations (Kloot 1999). Delegation of authority and responsibility in this organisation was measured by the AWTs. An Executive Officer of SIRC F commented on the importance of the AWTs in the organisation's managerial operations:

> *"Basically, I manage this division based on the annual work targets. I produced these work targets as an annual programme and they have been used as terms of reference for us in the division."*

Thus the development of the AWTs went through thorough deliberations before finally being approved by the top management as terms of reference in the organisations' managerial operations. This was to ensure that the AWTs were consistent with the visions of the organisations and, equally important, that they must be achievable based on the existing capacity of the organisation, as summarised by the Executive Officer of the SIRC concerned in the following statement:

> *"First we discussed the AWTs at department level with the heads of units. Once properly drafted, we would present them in a meeting attended by our bosses, the Secretary and Deputy Secretary. We discussed in great detail the indicators in the AWTs including the justifications. The target needs to be realistic based on our capacity. If it is not, what is the point of creating the target?"*

Nevertheless in SIRCs where formal planning frameworks were not in existence, there was less evident in linking these indicators to the organisational programmes and activities. Instead, performance measurements of personnel were routinely undertaken every year and the development of AWTs was not extensively deliberated. Commenting on the development of the AWTs in his organisation, an Economic Affairs Officer of SIRC A (small and self-funded orgnaisation) said:

> *"As far as I know, the development of AWTs was undertaken at the department level only. We submit to the head of department and he decides whether to approve or otherwise."*

Most participants indicated that all levels of personnel were largely receptive toward this performance measurement exercise. Apart from being aroutine performance measurement exercise, staff would generally benefited financially from the system in terms of annual increment.

7.6.6 Performance Reporting

Financial providers were basically inclined to have more information about what had actually happened to their contributions. The information to be disclosed stakeholders such as funders, contributors and financiers should include both the financial and non-financial information (Connolly and Hyndman 2004). The results of the questionnaire survey in Chapter Six indicated that performance information in SIRCs/*baytulmal* institutions was pre-dominantly reported in management reports, implying that the information was mainly used by internal management for decision-making purposes. The questionnaire survey also reported the frequent use of Annual Reports, mainly to disseminate performance information of financial nature to external parties, which was confirmed by the interview survey. Apart from being reported in the mandatory financial statements, basic performance information, such as total collection and disbursements of *zakah*, and income generated by *baytulmal* and *waqf* assets and properties, was frequently reported in conventional reporting media such as flyers, pamphlets, newsletters or bulletins. Performance information in these publications tended to be simple and straightforward, as complex financial information in financial statements may not be actually used by many people (Paton 1992). The reporting of such information to external parties tended to be very selective based on the perception of the officer in charge as commented on by an Executive Administrative Officer of the *Baytulmal* Unit of SIRC C below:

> *"We just report to the public the information that we think the public really needs to know. Detailed information is reported only to the management periodically in management meetings or working committee meetings or as requested."*

These documents were conveniently placed in related offices, mosques, and Islamic institutions around the state, which were accessible by most financial providers and supporters as most of them were regular visitors to these places. Interestingly, the advent of information technology did not emerge to be advantageous to these organisations. As reported by the questionnaire survey in Chapter Six, websites were not widely employed by SIRCs/*baytulmal* institutions regardless of size of the organisation and type of funding. This situation was despite the fact that most of SIRCs/*baytulmal* institutions had set up their official websites. Several participants highlighted the shortages of staff with relevant expertise as the main reason for not taking the advantage of the technology while several other senior officials were concerned that the performance information might lead to public confusion and misunderstanding if not updated regularly. On the other hand, the reluctance to use mass media in disseminating their performance information despite its massive coverage was fear of manipulation and bad publicity by the media. Commenting on the reluctance of SIRCs/*baytulmal* institutions to have a close association with the mass media, a senior official of SIRC G (medium and partially-funded) expressed his unfavourable experience with the media in the following statement:

> *"Why is the media not interested in publishing positive aspects about the Councils? I do admit the Councils make mistakes sometimes and have weaknesses but what do our people get from publishing this negative news about us? Would there be a healthy impact. In one case, a newspaper published a story of a needy man who claimed to have been turned away from receiving assistance from us. I did send my officer to investigate the truth of the story. It turned out that the person actually got a monthly contribution from us. This newspaper likes to make sensational stories about us. Any issue on the needy and poor was always associated with us."*

The above circumstances illustrated how the nature of accountor-accountee relationship can affect the information that might be demanded and transmitted (Parker and Gould 1999). Relationships that were not bound by formal and written contractual terms appeared to involve a lesser extent of supply of information between contracting parties.

7.7 Financial Reporting Practice in SIRCs/*Baytulmal* Institutions

Arguably accounting has an important role in the provision of financial performance information of an organisation to decision makers. Nonetheless, financial reporting in public sector or non-profit organisations like SIRCs/ *baytulmal* institutions has a relatively more important role for accountability or stewardship purposes. Ijiri (1974) argued that in reporting information, accountability should be the basis for the flow of information from organisations to recipients. Accordingly, financial reporting in these organisations should not only reporting past financial transactions but more importantly to account for the overall management and stewardship of resources entrusted to them to the regulators, fund providers and supporters, beneficiaries and the public. The following sections present the observations of semi-structured interviews on the financial reporting practices in SIRCs/ *baytulmal* institutions.

7.7.1 An Overview of Financial Reporting Practice

The interview survey and physical inspections on financial statements revealed that the financial reporting practices in SIRCs/*baytulmal* institutions paid very less emphasis on stewardship/accountability. Although SIRCs/*baytulmal* institutions appeared to be producing almost all the mandatory financial statements required by the relevant authorities, inspections on the physical financial statements revealed a great extent of variations in the presentation, content and measurement bases. Descriptive information on the organisations' performance was very scant and similarly, there was very limited information on the future financial positioning of the organisations. With almost fifty percent of SIRCs/*baytulmal* institutions failing to produce Annual Reports, financial reporting in these organisations appeared to be a compilation of past transactions.

It was also revealed that financial reporting practices in SIRCs/*baytulmal* institutions was largely influenced by the accounting standards promulgated for profit-making entities issued by MASB. Few SIRCs had developed an integrated financial management system comprising an accounting system, a budgeting system and a subsidiary system. Overall, laxity in the management of financial information was evident and to some extent had obscured the role of accounting, not only in relation to financial control but also in promoting accountability in these organisations.

With regards to the *waqf* financial information, the interview survey revealed that the existence of reporting practices were reasonably satisfactory but emerged as significantly distinct in terms of presentation and treatments between organisations. Due to the absence of specific accounting prescriptions for *waqf*, the recording and reporting of *waqf* information were based on the prevailing accounting standards issued by the MASB. The issuance of the *Waqf* Accounting and Management Manual by JAWHAR, however, was only adopted at moderate extent due to its lack of enforceable authority.

7.7.2 Accounting Operations

The interviews revealed that the financial information in all SIRCs/*Baytulmal* institutions were recorded using the accrual basis of accounting, which is consistent with the requirement of the Statutory Bodies (Accounts and Annual Reports) Act 1980. The accrual basis of accounting facilitates these organisations to have a comprehensive reporting of financial performance, and reporting the true costs of all transactions. These were possible as accrual accounting recognises economic events when they occur regardless of when payment is made (or received) (Accountants-Today 2011). The basis also enables the maintainance of information on debtors and creditors as well as assets and liabilities, which make possible for these organisation to discharge the financial accountability (Paton, 1992). This information is essential for fund providers, financial supporters and the regulators to measure the financial performance of SIRCs/*baytulmal* institutions.

Physical inspections on the financial statements of SIRCs/*baytulmal* institutions discovered that financial information in almost all of these organisations was maintained according to the type of fund (i.e. fund accounting). Typically, the funds being maintained consisted of *zakah* funds, *baytulmal* funds, *waqf* funds and other operating funds. The financial information of these different types of funds was reported in columnar formats. Apart from complying with the legal requirement of the Statutory Bodies (Accounts and Annual Reports) Act 1980, this presentation of financial information would be useful for fund providers and financial supporters of SIRCs/*baytulmal* institutions to evaluate the performance of resources contributed by them. Most of the fund contributors would keen to be informed that their altruistic intentions were fulfilled.

Meanwhile, discussions with participants also revealed that the level of computerisation of accounting operations in SIRCs/*baytulmal* institutions varied significantly between them. Few of these organisations even maintained their accounting operations manually by using either Excel or Excess spreadsheets. Interestingly, this practice was not restricted to small SIRCs/*baytulmal* institutions but was also evident in medium-sized organisations. It was revealed that the top management of these organisations had less interest in developing or even improving the accounting system as it had no direct impact on customers and beneficiaries. An accountant of one medium-sized organisation, SIRC L, highlighted the delay in the computerisation of accounting system in the organisation as in the following comments:

> *"We are still on manual for the accounting system. It (the computerisation) should have started in 2010 according to our strategic planning. The delay was simply because the top management focused more on the zakah system; apparently they were not serious about the financial management system. We handled all accounting information manually in Excel. No integration at all with the other system! However, thanks to God, we managed to produce the financial statements on time. This was why the management was not really serious about the need of a computerised accounting system!"*

Several other SIRCs used 'off-the-shelf' accounting packages such as the UBS or Quantum. However, several accountants had raised concerns that some of the functions developed in the system were less flexible and could not accommodate the needs and expectations of SIRCs. In SIRC D for instance, the accountant pointed out that the rigidity of the 'off-the-shelf' accounting package made the integration with the budgeting system and other subsidiary systems unfeasible. This situation had a profound impact on the budget monitoring. In addition, the distinct reporting requirements by the Statutory Bodies (Accounts and Annual Reports) Act 1980 led to the preparation of financial statements being undertaken manually using either Excel or Excess spreadsheets. The direct implications of having this type of accounting system were delays in the productions of financial.

Interestingly, the interview also revealed that about forty-percent of SIRCs/*baytulmal* institutions had developed their accounting system in-house by their technical staff. However, the high rate of personnel turnover and restrictions imposed by the PSD on the recruitment of relevant staff would have caused disruptions to the in-house development of accounting system. For instance, the in-house development of the accounting system in SIRC J was carried out by its personnel and encountered frequent disruptions as a result of staff resignation. Most of these organisations did not have a personnel back-up system for staff replacement purposes.. Unfortunately, these circumstances were common observations in SIRCs/*baytulmal* institutions and encapsulated by the accountant of SIRC J in the following statement:

> *"We have had this problem for quite a long time. The modular systems here have problems in interfacing between each other due to incompatibility. As a result, the accounting system was affected and integration with the main general ledger account could not be done. Instead we have to key-in all transactions manually to UBS and there was huge amount of work involved. So the account staff are overburdened with this key-in, especially during the year-end period. They are practically doing two jobs at a time. They stayed for several days to close the accounts."*

Overall, participants were in agreement that the computerisation of accounting operations would improve the timeliness of financial reporting. However, only a significant minority of SIRCs/*baytulmal* institutions had fully integrated their financial management system while the majority of them operated an accounting system independent from other subsidiary systems, including the budgeting system.

7.7.3 Annual Reports

The results of the questionnaire survey reported in Chapter Six revealed that all mandatory financial statements were satisfactorily produced by all SIRCs/*Baytulmal* institutions. In other words, the Receipts and Payments Accounts, Income and Expenditure Accounts, Cash Flow Statements, Balance Sheets, Notes to the Accounts and Statements of Assets and Liabilities were available for public scrutiny. The interview survey and physical inspections discovered two inter-related issues concerning Annual Reports in SIRCs/*Baytulmal* institutions, namely, the production of Annual Reports and the accounting and reporting of financial statements.

Discussions with participants and physical inspection on financial statements revealed that less than fifty percent of SIRCs/*baytulmal* institutions had in actual fact produced Annual Reports. Interviewees were in agreement that the production of Annual Reports was a legal requirement stated in the Statutory Bodies (Accounts and Annual Reports) Act 1980. It appears that these Annual Reports were produced by medium- and large-sized SIRCs/*baytulmal* institutions. Further discussions with finance officials revealed two inter-related challenges in the production of Annual Reports in SIRCs/*baytulmal* institutions: first was the difficulty in obtaining related information for Annual Reports and second was shortages of human resources to prepare relevant information for the Annual Reports. In particular, the Accountant of SIRC J expressed her concern in obtaining relevant information from external parties for activities that were jointly undertaken as follows:

> *"We never had an annual report. We had problems in compiling all the relevant information as some of them are not within the Council. For example, some information on zakah distribution is held by the Department, so it was not easy to have such information from them. We need the information to confirm with the collection that we did. We enquired and waited for the information which has not been furnished until now!"*

Due to the insufficient number of personnel and expertise in these organisations, deployment of existing personnel for the production of Annual Reports may jeopardise the performance of other critical functions in the organisation. Layish (1993) argued that increasing the accountability could actually lead to a decrease in the governmental efficiency as the deployment of personnel may direct them to do the wrong things in wrong way. The Accountant of SIRC H had this concerns with regard to the capacity of the existing personnel in the organisation to be involved in the production of Annual Reports. Commenting on the situation, the Accountant described:

> *"Maybe it is an excuse to cite the lack of manpower as the reason for the non-production of Annual Reports. But, actually it is! And if we were to pass it on to the publication division, they need data and information and we need to dedicate our time to prepare for the reports. We think it's too much for us to deal with all these pie charts, tables and figures!"*

Surprisingly, an accountant of SIRC B that was fully-funded by the state government revealed the resistance of the top management to produce Annual Reports for public scrutiny. The top management was sceptical about the public having access to a variety of information pertaining to the organisation. The resistance of the top management in reporting organisational performance to the public would more importantly raised concerns on their integrity. She related the top management's sceptical view in publishing Annual Reports in the organisation as follows:

"I personally wanted to produce an annual report in more comprehensive and summarised forma but more importantly, understandable by the public. But the bosses were quite sceptical about it as it would expose our finances and all sorts of information; it needs approval from the Sultan (the Ruler) anyway."

It became apparent that variations in the presentation and measurement bases within the financial statements of SIRCs/*baytulmal* institutions were due to the absence of a specific accounting and financial reporting prescription by the prevailing accounting standards. Islamic resources such as *zakah, waqf, baytulmal* and public donations might require different accounting treatments and bases of valuations due to their specific religious restrictions and injunctions. The different presentations of *waqf* information such as *waqf* lands were mainly due to the absence of legal prescriptions by the current accounting standard. The diverse accounting measurements and presentations of financial information were also reported in earlier studies of accounting practices in a selected number of SIRCs (Abdul-Rahman and Goddard 2003; Mohamed et al. 2006; Mohd-Zain and Abdul-Rahman 2006). Physical inspection of financial statements discovered several occasions on which no value was attached to *waqf* assets and properties. Under this condition, *waqf* assets and properties were reported in the memorandum of fixed assets and appeared as notes to the accounts despites the adoption of accrual accounting basis. This treatment for *waqf* assets and properties was insisted to be the most appropriate since they were entrusted to SIRCs/*baytulmal* institutions but indefinitely belong to God (i.e. Allah). However, an accountant of SIRC D, a small and partially-funded organisation, explained the reasons for the absence of valuation figures in the financial statement of the SIRC concerned:

"We did not prepare separate accounts for each waqf. *We just cannot afford to do it (separate accounts) with the present capacity of manpower. Similarly we did not account waqf lands as we did not incur any cost when the assets were transferred to us. Any verification on the existence of the assets was based on the schedule of waqf assets. Currently we have a database for land and this helps us in tracing back waqf lands in the state."*

Further, instances of attaching token values varying from RM1 to RM10 for each piece of *waqf* land and property were initially for accounting purposes and were executed upon the recommendations of the external auditors. Under this prescription, *waqf* assets and properties appeared to be owned by SIRCs/*baytulmal* institutions. Thus finance officials insisted the treatment was acceptable since the trusteeship of SIRCs/*Baytulmal* institutions was stipulated on the physical land titles. Such assignment of token values was essentially to safeguard the permanency of *waqf* assets and properties. Missing accounting records of *waqf* assets and properties was blamed for the untraceable of and the reclamation of *waqf* assets and properties. In line with this predicament, an accountant of SIRC H reported that the external auditors had recommended the assignment of token value of RM10 for each piece of land or each unit of property. In another instance, SIRC C reported its waqf assets and properties in the notes to the accounts (i.e. memorandum of fixed assets). The Assistant Accountant of SIRC C described the accounting of *waqf* lands at a value of RM1 per piece in the organisation was recommended by the external auditors, as in the following comments:

> *"Waqf lands and buildings dedicated for mosques and burial grounds were initially not accounted. Only after discussions with JAWHAR officials and identification by the external auditors, the assets were accounted at RM1 per piece or per building. That treatment started in 2007. There were RM28 value of waqf lands in this account; roughly we have 28 pieces of land under our custody but for building, we only accounted those we bought using the waqf fund, otherwise there were not in the accounts. Anyway, most of them are mosques."*

However, the assignment of token values to *waqf* assets and properties in the acoounts did not effectively reflect the accurate value of the assets and properties. The token values ranging from RM1 to RM10 attached to *waqf* assets were incredibly unrealistic to reflect the current value of the majority of these assets and properties. Hence, the financial statements reporting the assets and properties would not be providing the true and fair view of the actual financial position of the organisations. Such practice would also obscure the measurement of the economic efficiency of the relevant *waqf* assets and properties. In the case of SIRC C, the economic efficiency of the 28 piece of land measured using the value of RM1 each piece would not be reflecting the actual economic performance of the assets. The practice would entail diverse reporting practices and consequently obsure comparative performance measurents among SIRCs/baytulmal institutions.

Although it was an obligation for these organisations to report the use of resources publicly in the form of Annual Reports, most participants were apprehensive about striking a balance between the costs of producing Annual Reports, both financial and non-financial, with the benefits of making the documents available for public scrutiny. They admitted that the reports would be helpful to communicate the financial performance to relevant financial providers and supporters and thus would enhance the credibility of the organisations. However, such reports are not the only source of information about SIRCs/*baytulmal* institutions and they are not the only means of achieving accountability (Patton 1992; Connolly and Hyndman 2004).

7.7.4 Regulatory Framework for Accounting Operation in SIRCs/*Baytulmal* Institutions

Accounting practices are essentially governed by a set of rules, namely, legal requirements, standards, and specific rules or instructions. Findings of the questionnaire survey reported in Chapter Six revealed that the Statutory Bodies Act 1980, the Treasury Instructions (TIs) and the Financial Reporting Standards (FRSs) had significant influence on the accounting operations of SIRCs/*baytulmal* institutions.

According to interviewees from finance departments/divisions, the Statutory Bodies Act 1980 dictates the use of accrual basis of accounting to record financial transactions while fund accounting for reporting the financial information. Meanwhile, the Treasury Instructions (TIs) basically prescribes procedures for safeguarding the assets entrusted to them and budgetary practices. Virtually all interviewees indicated that the overall financial reporting in SIRCs/*baytulmal* institutions was based on the prescriptions of commercial-oriented accounting standards, the FRSs. The following comment by the Chief Accountant of SIRC F signified this influence on the reporting practices in SIRCs/*baytulmal* institutions:

> *"We just follow the standard for corporate accounts. Even the presentation of the accounts follows the corporate entity's presentation of financial reporting."*

At the same time, a number of accountants raised concerns about the influence of the commercial accounting standards of the FRSs on the reporting practices of SIRCs/*baytulmal* institutions. This minority group of accountants highlighted that it was crucial for the relevant accounting authorities to establish distinct accounting framework for financial transactions of *waqf*, *zakah* and *baytulmal*. The multi-faceted objectives, the nature and type of financial transactions necessitated distinct accounting standards. The following comments by a participant accountant summarised their expectations for accounting standards for non-financial Islamic institutions:

> *"For standardisation purposes, I think we need a kind of standard for waqf. So far, the presentation of information and even treatments are very different, not just concerning waqf but other thing as well. If MASB (FRSs) can make standards for Islamic banking activities, why doesn't it do so for the non-banking activities of Islamic financial institutions?"*

Despite the expectation to have specific accounting standards for waqf, the interviews revealed mixed responses on the adoption of the *Waqf* Accounting and Management Manual (*Waqf* Manual). The issuance of *Waqf* Manual by JAWHAR was to promote a standardised accounting and financial reporting for waqf. Several accountants indicated that the adoption of the *Waqf* Manual needed the approval of the Board of Councils, while in other SIRCs the consent of the Ruler, as the head of Islam, simply because it was not issued by an accounting authority in Malaysia. The finding was intriguing, as the vast majority of accountants of SIRCs/*baytulmal* institutions had actually involved in the development of the *Waqf* Manual. Surprisingly, however, the random adoption of the *Waqf* Manual was also due to the ignorance of the key finance personnel in the organisation, as exemplified in the following statement by the Finance Officer herself:

> *"Was it the one issued by JAWHAR? We haven't decided on that manual as I have not seen it myself. We have not had any accountant for so long. Maybe we will look through it once we have the new accountant."*

Based on the above discussion, the absence of enforceable accounting prescriptions for financial transactions such *waqf*, *zakah* and *baytulmal* had led SIRCs/*baytulmal* institutions to resort to commercially-orientated accounting standards.

7.8 *Waqf* Management in SIRCs/*Baytulmal* Institutions

As mentioned in Chapter Three, the management of *waqf* in Malaysia is the prerogative of state governments. The appointment of State Islamic Religious Councils as the sole trustees of *waqf* (assets, properties and resources) entails their legal responsibility for the management, development and direction of *waqf* institution in each state. The creation of JAWHAR and MWF was chiefly to coordinate the presence of diverse *waqf* activities in Malaysia.

7.8.1 The Roles of JAWHAR/MWF in the *Waqf* Management

The examination of the participants' perception on the role of JAWHAR/MWF in the *waqf* management provide insights into their relationships with SIRCs/*baytulmal* institutions as would have a profound impact for the long term progress of *waqf* institution in Malaysia. The results of the questionnaire survey in Chapter Six revealed that JAWHAR/ MWF had very little influence over the management of *waqf* in SIRCs/*baytulmal* institutions. The key official of JAWHAR seemed to confirm that that the creation of JAWHAR/MWF was only to provide a coordinating platform for the diverse *waqf* administrative, legal and development issues in SIRCs/*baytulmal* institutions. He emphasised that JAWHAR was not supposed to be actively involved in the administrative affairs of *waqf* and its development activities SIRCs/*baytulmal* institutions. Commenting on the role of JAWHAR, the official said:

> *"We just act as a facilitator for them (SIRCs/Baytulmal institutions) and provide them with a platform for interaction. Talk to us, we are very much*

aware of the power (of the administration of Islam and its affairs) and we don't want to touch it at all. It's a sensitive area!"

The interview survey with officers from SIRCs/*baytulmal* institutions, however, revealed mixed perceptions on the roles of JAWHAR/MWF in relation to *waqf* activities in SIRCs/*baytulmal* institutions. An overwhelming majority of participants were in agreement with the view provided by the official of JAWHAR that the main role of JAWHAR/MWF was only to undertake a coordinating role and not to be involved actively in the *waqf* administrative affairs and its development activities. In addition, these federal agencies were resorted to for administrative resources and expertise, particularly by the small organisations. An Assistant Economic Affairs Officer of a small organisation, SIRC A, commented:

"As far as JAWHAR is concerned, we believe the creation of JAWHAR was to help us in the state by sharing ideas and strategies for developing the Islamic resources. So far we have attended all kind of meetings, seminars and workshops organised by them [JAWHAR] and lately together with the Malaysian Waqf Foundation."

For some participants, the role of JAWHAR should also be extended to involve in resolving the inherent challenges in SIRCs/*baytulmal* institutions, namely, shortages in manpower and financial inadequacy. They insisted that the position of JAWHAR as a Federal agency would be advantageous to work with the relevant Federal government departments/agencies such as the PSD for the shortages in manpower. There were also suggestion for JAWHAR to initiate discussions with the Inland Revenue Board pertaining to the taxation matters imposed on *waqf* assets and properties. On the other extreme, there was a group of participants who had the perceptions that JAWHAR had failed in performing its primary role as a coordinator for *waqf* activities. Instead, one of the participants insisted that JAWHAR had become actively involved in the *waqf* development itself and neglecting its main role in the coordination of *waqf* activities. An officer from SIRC J expressed his dissatisfaction over the under-performance of JAWHAR as a coordinator as follows:

> *"If I were to say that they (JAWHAR/MWF) are taking over our role (administering waqf), they would certainly be mad at us, but they are actually not doing the job. They should be the mediator between us and the federal agencies. We have acute problems concerning manpower and they could initiate discussions with the PSD or other relevant agencies. But they have not done this so far!"*

7.8.2 Collaboration between SIRCs/*Baytulmal* Institutions and JAWHAR/MWF

The collaboration between JAWHAR/MWF and SIRCs/*baytulmal* institutions was initally to take advantage of the financial allocation from the Malaysian government under the Ninth Malaysia Plan amounting to RM250 millions. Both JAWHAR and MWF have been made responsible for the very first impressive effort by the Malaysian government to develop *waqf* assets and resources. Participants emerged as having two different views toward the collaboration arrangement. First, participants from SIRCs/*baytulmal* institutions with little or no evidence of *waqf* development activities appeared to be receptive towards ideas and strategies promoted by JAWHAR/MWF for the collaborative arrangement. They were also of the view that the collaboration had engendered functional interactions between JAWHAR/MWF and SIRCs/*baytulmal* institutions, which seemed to further strengthen their existing relationships.

Second, several officials expressed their sceptical views in relation to the role of JAWHAR/MWF in the collaboration that were noticeable in SIRC C and SIRC J. It has become apparent that these organisations had established organisational infrastructures for *waqf* activities and had undertaken considerable *waqf* development activities within their capacities. Despite affirming a good working relationship with JAWHAR/MWF, a Senior Official was personally unconvinced of the non-intervention policy espoused by these Federal agencies even for the collaborative arrangement. An official of SIRC C revealed his sceptics that the Federal agencies would be passively involved in the *waqf* development activities, as expressed in the statement below:

> *"They thought by mentioning that they were not taking over the power of the state governments would be calming us. They are simply playing with the*

feeling. If they seriously want to work with us, it would have been more appropriate not to mention it at all. Instead, come to us with a concrete mechanism to start off the development agenda."

In light with the above view on the collaborative arrangement, an official of SIRC J insisted that JAWHAR/MWF was actually imposing its strategic planning on SIRCs/*baytulmal* institutions. Although these organisations were required to produce a strategic planning for the purpose of waqf development, this participant had the feeling that the exercise was in fact to fill the gap in the strategic planning of JAWHAR. The official of SIRC J indicated that imposing the Federal government policies onto SIRCs/*baytulmal* institutions has even become noticeable when awarding financial assistance for *waqf* projects. The participant had a strong belief that JAWHAR discretionally accepted projects that were consistent with its strategic planning and rejected otherwise as described in the following statement:

"For instance, when JAWHAR requested information on the potential waqf lands for development purposes during the Ninth Malaysia, then we submitted all the required information. Out of seven submissions, only two were accepted. They did not provide us with reasons for rejecting the other five projects. But I believe it was due to insufficient budgets. These are all their programmes; not ours."

In addition, the participant claimed that JAWAHR/MWF was not supportive towards the existing *waqf* development programmes despite the significant contribution of the programmes towards the welfare of the Muslim communities. For example, the Old Folks and Orphanage Home programme was rejected from receiving financial support even though the construction expected to receive financial support from the Federal government. This situation had led to the impression that JAWHAR/MWF was taking advantage of the SIRCs/*baytulmal* institutions and was not seriously providing the necessary assistance in strengthening the *waqf* institution. Such an imposition of development packages could have affected the future positioning of *waqf* institution in SIRCs/*baytulmal* institutions and had violated the freedom on strategic planning granted upon these organisations. The statement by the official concerned encapsulated the overall relationship between these parties:

“We support their programmes but it seems there is no possibility that they [JAWHAR] will support our activities. If we were to develop an orphanage and require RM5million but are only able to generate RM3million for the project, can they come up with the balance of RM2million? Seriously, I cannot see this would become a reality. We worked out every single aspect for ‘their’ projects. We studied the location, and proposed appropriate projects to them. They then imposed their targets on us. If we missed their timeframe, we basically failed in meeting their targets. They actually pushed us for their interests.”

Furthermore, an official of SIRC C insisted that the Federal agencies had essentially failed to comprehend the overall administrative aspects inherent in SIRCs/*baytulmal* institutions. JAWHAR was seen to be insufficiently sensitive and supportive to their needs and expectations. Apart from the financial limitations, JAWHAR failed to recognise that these organisations also endured critical shortages of manpower as well lack of organisational infrastructure. The high rates of staff turnover have severely affected the size of manpower, which was further compounded by the imposition of a stringent recruitment policy by the PSD. It was highlighted that the terms of reference for the collaboration made less reference to the impediments experienced by SIRCs/*baytulmal* institutions. In addition, failure to fulfil the expectation of the collaboration would render termination of the collaboration, which lead to no further financial support for the organisation. His sceptical views can be summarised as follows:

“If they [JAWHAR] really want to help and work together with us, they should understand our constraints at the state level. Of course we realise the state enactments could be major constraints but apart from these, we expect them to understand our administrative set up here. We have been working on a very limited manpower for a very long time. If they seriously want to ensure that cooperation between the federal government, in particular JAWHAR and SIRCs, is functioning effectively and bring into being a comprehensive development of waqf institutions in Malaysia, they have to come to us in a ‘similar intonation’.”

Essentialy, the effectiveness of the *waqf* development programme requires a comprehensive package addressing the administrative and financial capacity of SIRCs/*baytulmal* institutions. It appeared that SIRCs/*Baytulmal* institutions had less flexibility in carrying out the development programmes for *waqf* under the collaborative arrangement. The extent of freedom to manage an organisation is measured by extent to which the organisation has freedom on strategic planning (Pendlebury and Karbhari 1997).

7.9 Accountability Index in SIRCs/*Baytulmal* Institutions

Two senior officials of the NAD, namely, the Deputy Director of Audit (State Sector) and the Audit Officer, were interviewed for this study to obtain insights of the extent of accountability in SIRCs/*baytulmal* institutions. The Accountability Index (AI) assessments on SIRCs/*Baytulmal* institutions seek to assure the high standard and transparent financial management of these organisations. The AI rating was awarded essentially based on the level of compliance with relevant financial laws (enactments), rules and regulations and was generally premised on the Financial Management Best practices for SIRCs issued by NAD. The rating of the AI are divided into four levels: excellent (four stars: 90%-100%); good (three stars: 70%-89%); satisfactory (two stars: 50%-69%) and unsatisfactory (one star: 49% and below). In this section too, the views of senior managers of SIRCs/*baytulmal* institutions toward the AI are presented.

7.9.1 Views of the National Audit Department

The interviews with the audit officials revealed three important aspects pertaining to the financial management in SIRCs/*baytulmal* institutions. Firstly, they concurred that the lack of commitment of the top management and the high rates of staff turnover had contributed substantially to the deficiencies in the financial management of SIRCs/*baytulmal* institutions as commented by the Deputy Director of the State Sector:

> *"Based on our observation, there were two things that contributed to the low rating of AI. The first one was top management involvement, as top management were not very concerned about compliance with some rules or regulations."*

They observed that the top management in some SIRCs/*baytulmal* institutions were not actively involved in the financial management operations and some even had considerable records of non-attendance at important meetings of working committees overseeing the financial management operations. The officials also pointed out during the interviews that the high rate of staff turnover had poorly affected the operations of financial management in SIRCs/*baytulmal* institutions. Staff resignation would normally lead to breakdowns and disruptions to the financial management operations since the majority of SIRCs/*baytulmal* institutions had not instituted a personnel back-up system due to shortages of manpower. Surprisingly, it was highlighted that the high turnover rates was not only applicable to the operational level of management and lower level of staff but also to the top management level as pointed out by the Audit Officer in the following statement:

> *"Staff turnover is very frequent in SIRCs. Even worse, the heads change quite regularly too!"*

Secondly, they both concurred that the competency of the staff who directly involved in the financial management operations was another major concern for the accountability of SIRCs/*baytulmal* institutions. Both audit officials shared similar concerns that the majority of personnel assigned to handle the financial management operations were either had no accounting-related educational background or only had very little accounting-related exposure or training. The lack of competency in accounting was also applicable to the operational managers. Except for the accountant, the operational management in SIRCs/*baytulmal* was dominated by personnel with Islamic-related education or work experience. Although the audit officials recognised the efforts of several big SIRCs/*baytulmal* institutions employing personnel with an accounting-related background to be assigned to the financial management operations, they still had concerns that the overall mind-set in SIRCs/*baytulmal* institutions had not changed accordingly.

Thirdly, the audit officials revealed that the asset management system in SIRCs/*baytulmal* institutions was another major cause for the low rating in the AI assessment. They specifically referred to the weak record keeping of their assets, which involved registration, labelling, safeguarding and undertaking maintenance of the assets. The writing-off process of obsolete assets was also being neglected by several SIRCs. The lack of records for the assets in these organisations was claimed to have led to problems in tracing the assets physically. The audit officials also confirmed that the massive untraceable *waqf* assets and properties in some SIRCs were due to the weaknesses in the record keeping. The Deputy Director of State Sector comments were as follows:

> *"Asset management contributed significantly to the low rating of AI. It covers a broad spectrum, starting from purchases up to writing them off. Registering, labelling, keeping and writing off, and you cannot afford to miss any of them. If assets management is weak, it will pull down the whole ranking and this is normally the most frequent reason (for a low rating of AI)."*

Interestingly, despite the obstacles related to manpower and challenges on the administrative aspects, they admitted that the reaction from SIRCs/*baytulmal* institutions toward the AI rating exercise was very encouraging. The organisations have also shown gradual progress in the AI rating assessment. The Deputy Director of the State Sector confirmed that almost all SIRCs/*baytulmal* institutions were committed to improve or at least to maintain their existing AI rating. In summary, she believed the AI offered a perfect mechanism for improving the efficiency and effectiveness of the financial management in SIRCs/*baytulmal* institutions and thus SIRCs/*baytulmal* institutions enhancing the credibility of these organisations in managing the Islamic resources.

7.9.2 The Impact of AI on the Financial Management of SIRCs/*Baytulmal* Institutions

The majority of participants in the interview survey were in agreement that the AI rating assessment conducted by the NAD has led to improving and strengthening the financial management of SIRCs/*baytulmal* institutions. In particular, AI has contributed in systemising workflows, strengthening the internal control systems and enhancing the commitment and awareness of both the top management and operational management on the importance of financial management in the organisations. The following comment by the Accountant of SIRC L summarised the benefits of the AI rating assessment:

> *"For us, the AI really helped in improving our work flo. As a result, we have now incorporated most of the internal control elements in our work procedure and not only that, it covers financial statements as well. How do we record our income, payments and assets? Whether the labelling, reporting and verification of assets have been done or otherwise? So, it is aligned to our daily jobs."*

In another instance, the AI rating assessment has compelled members of staff to always be cautious of whether their work conform to existing laws, rules and procedures issued by relevant authorities. Failure to observe the relevant laws, rules and procedures would render lower AI rating for the organisation. The Accountant of SIRC M described the impact of the AI rating assessment to her organisation as follows:

> *"So far it is just on compliance with the rules and enactments. If we observe these elements, there should not be any problem to get those marks; our work is more systematic when we follow the procedures. Members of staff always need to be aware of any rules and procedures, unlike before when they did their jobs as they saw fit!"*

Further, the interviews also revealed that the AI rating assessment had motivated the development of the internal financial management procedures. Essentially, the procedures adopted with modifications to suit the organisation's structure and environment the Financial Management Best Practices for SIRCs issued by the National Audit Department. The internal financial management procedures would provide a better directives to member of staff in performing their jobs. Such internal procedures would also facilitate the delegation of responsibilities to the lower level of management as the expectations of them are laid out clearly. In addition, several participants has suggested that the AI rating assessment had instilled a cooperative spirit among personnel in the organisations. The AI rating was not only relevant for the Finance Department, but it recognised the effort of the entire organisation. The assessment necessitated the participation of personnel at all levels in the organisations. In one instance, the rewards promised by the top management for improving or at least maintaining the existing AI rating played an important role in promoting the cooperative work spirit within the organisations.

However, whilst many interviewees claimed the AI rating assessment had improved the financial management operations, a few number of participants had sceptical opinion about the effectiveness of the AI rating assessment in strengthening the financial management of government agencies. An accountant of SIRC D, for instance, argued that the AI rating assessment undertaken in his organisation tended to be very rigid, making little allowance for differences in the organisational complexity. For instance, in small organisation the adherence to certain financial management rules and regulation requires the commitment of the organisation, in particular, the top management. The accountant insisted that the rating did not have a significant impact on the overall financial management, instead it was a very superficial exercised by the NAD for accountability purposes, as expressed in the following comment:

> *"The AI is helpful but sometimes the implementation it tends to be very rigid. We can actually attain a good rating if we put into practice what they require. In fact some of them just do what are required to do and no more than that. So, in a practical sense there is not much impact on the management."*

A participant from SIRC H perceived that the AI merely functioned as a trigger to comply with relevant laws, rules and regulations as indicated by the Accountant . Despite that perception, the participant acknowledged the advantage of the AI in prompting the improvement and updating of the records of assets, including *waqf* assets, as expressed in his statement below:

> *"It is good to remind us but I find it redundant sometimes. Anyway, it helps us with the waqf assets register. Last time it was not complete but the data are now comprehensive. Personally, it is good because the staff listen more to the auditor than to me."*

7. 10 The Impact of Inherent Challenges on the Administrative Capacity of SIRCs/*Baytulmal* Institutions

Polidano (1990) argued that among the prevalent challenges for the public sector organisations in developing countries were in relation to the administrative and financial capacities. The interview survey highlighted several notable challenges in SIRCs/*baytulmal* institutions arising from administrative capacity, namely, the lack of commitment from top management, backlogs of unsettled cases, high rates in uncoordinated and unplanned activities, and weak management information system. The circumstances were further exacerbated by inherent shortages in the manpower and financial resources.

7.10.1 Lack of Commitment of the Top Management

Based on discussion with participants, the appointment of officials from other organisations, which is aptly described as 'secondment', and the appointment of officials approaching retirement age to fill the key position of the CEO would had substantial impact on the entire operations of organisations. The appointment of these senior officials were initially perceived to be advantageous for the organisations concerned for the purposes of coordination and cooperation in undertaking similar programmes and activities. However, the condition of sharing a key official could engender conflict of responsibility in the official concerned. Employees expected the top management to champion the implementation of any significant policy in the organisations. A top-down perspective rather than what took the formerly the department or individual manages is crucial for the success of any changes in the organisation (Bale and Dale 1998). They expected clear directives cascading from the top management on policy implementation. The Accountant of SIRC J (large and self-funded) expressed her frustration over the 'seconded official' that resulting to the lack of motivational support and direction experienced in her organisation as follows:

"At present, the Director of SIRD is the Chief Executive Officer of the Council, but he spends practically all his time at the Department. Our Secretary of the Council is also on loan. At the same time he is the Chief Assistant Director of Finance and Administration Division (State Islamic Religious Department). His office is at the Department and most of the time he is there. He rarely comes here (to have discussions or meetings). His focus is more on the Department, and very much less on us, so it is difficult for us to have significant programmes or activities. The Department itself is a huge (responsibility) and has many activities. Although we have significant roles, he seems not considering us as being as important as the Department. So, generally the strength of the Council relies on us; we, the operational managers, just move on."

Furthermore, the interviews highlighted a high rate of turn-over in top management positions, in particular, the CEO, resulting from the appointment of senior officials who are approaching retirement age. Disruptions or abandonment of managerial initiatives are very likely upon the retirement of the official. In addition, having a person who was about to retire seems to be detrimental to the morale of the staff as the person generally shows less interest and dynamism in improving the organisation. Again, the Accountant of SIRC J expressed her frustration about the impact of the lack of commitment shown by the top management in her organisation as follows:

"We have started to work on ISO and engaged with SIRIM to help out on the accreditation. However, when the boss retired and the new one came, the project was halted. Different bosses have different styles of management and ideas to bring into the organisation. Some bosses get involved very much with the projects or activities but some just do not bother and even put a stop to existing projects or activities. We are the victims!"

In several other SIRCs/*baytulmal* institutions, the lack of guidance and commitment of the top management in performance measurement has resulted in uncoordinated implementation of performance initiatives that were very much dependent on the efforts of individual heads of divisions/departments. Bale and Dale (1998) argued that any reforms and changes in the administration need to be marketed to other departments of the organisations. The coherent and comprehensiveness in reforms would reduce fears and confusions that reform was just another ad-hoc initiative. This was described by the Accountant of SIRC B as follows:

"So far at the organisational level we do not have a reward programme as such. We do prepare and compile manual office procedures for each staff. Each staff has his/her desk file. So, it is up to the heads of division. I do normally check my staff's desk files and reward them accordingly. It is really up to the heads."

7.10.2 Shortages in the Financial and Human Resources

Shortages in the financial and human resources were also widely cited by earlier studies as common phenomena in SIRCs/*baytulmal* institutions (Mahamood 2006; Ahmad 2007; Mahamood 2007b, a). Interviewees confirmed that these prevailing constraints in financial and human resources contributed to the lack of operational effectiveness of the accountability systems in the majority of SIRCs/*baytulmal* institutions. As mentioned earlier in the chapter, the recruitment of new permanent positions was subject to the authorisation of the PSD. Although recruitment of contract and temporary personnel was not restricted, these categories of employees exposed them to the risks of turnover and thus required considerable efforts and resources for training purposes. It has become apparent that these organisations were executing the accountability systems with very limited supply of human resources. At the same time, these organisations encountered considerable pressures of meeting unrealistic demands and expectations in delivering social goods and services. For instance, the Head of the *Baytulmal* Division of SIRC B expressed his frustration over the severe manpower shortage in his organisation in the following statement:

"We want to do everything but we do not have adequate 'weapons'. What do you think we can do with only four staff around in strategic planning?"

7.10.3 High Rate of Unplanned Programmes and Activities

The interview survey also confirmed that SIRCs/*baytulmal* institutions were expected to be responsive to urgent needs and expectations of the public and directives from relevant authorities. The results of the questionnaire survey in Chapter Six revealed that more than fifty percent of respondents indicated that the activities of SIRCs/*baytulmal* institutions involved attending unplanned programmes and activities. The existence of 'ad-hoc' and 'upon-directive' programmes and activities tended to involve deployment of financial and human resources that were initially assigned for activities within the strategic planning framework. In other words, unplanned prograames and activities could possibly lead to disruptions in the execution of the accountability systems, in particular, strategic planning and performance measurement. Commenting on the occurrences of unplanned events and their impact on the organisational resources, the Accountant of SIRC F stated:

> *"Occasionally there are things that we have to do that we did not plan or never expected to happen. For instance, earlier this year we had to conduct a major convention to address the emerging issues related to Islam. We never expected such an event to take place this year and the costs were massive. It affected our budget but luckily we had a contingency fund to cover the costs."*

Although it is natural for SIRCs/*baytulmal* institutions to attend to the urgent needs and expectations of the public, the management should be able to strike a balance between responsibilities to the public and beneficiaries and the future positioning of the organisations for the long-term benefit of the public and beneficiaries.

7.10.4 Backlogs

The interview survey also suggested that the presence of backlogs of unsettled cases in SIRCs/*baytulmal* institutions had slowed down the pace of these organisations in adopting new management techniques such as strategic planning and performance measurement initiatives. The backlogs were commonly associated with poor management of information systems, namely, the registration and recording systems of assets and properties. As a result, personnel would invariably be distracted from engaging crucial managerial activities including strategic planning. For instance, the Head of *Baytulmal* Division of SIRC H revealed that he spent his first three years in the organisation undertaking unproductive activities related to backlogs of unsettled cases. The following comment by the official concerned revealed the impact of backlogs on the potential implementation of strategic planning in the SIRC concerned:

> *"We did have planning sometimes, like developing one or two things a year. But we are just so bogged down trying to settle the backlog. In my case, the first three years of my time here were spent settling old problems and cases only and yet there are still some not settled."*

7.10.5 Weak Management Information System

Discussions with participants revealed that an inadequate data management system was prevalent in most of the organisations. The information was generally related to routine operations of the organisations but was critical for the evaluation of the efficiency and effectiveness of the operations. Data on strategic capacity were vital for evaluating the long-term effectiveness of the organisation (Verbeeten 2008). According to most of the participants, the availability of accurate and timely data was exceptionally uncommon and on several occasions, vital information was entirely untraceable, as expressed in the following statement:

> *"We do actually have our KPIs but they do not really reflect us. At present, the KPIs for zakah collection and distribution are purely monetary. We should be focusing on the efficiency of processing the disbursements but the data are not available for us to come up with such KPIs."*

7.11 External Consultants

The results of the questionnaire survey in Chapter Six indicated that the use of external consultants was mainly for the development of an accounting system. Interviews with participants confirmed the results that external consultants were hired by several SIRCs/*baytulmal* institutions to undertake the computerisation of accounting and budgeting systems. Engaging external consultants reduced the risks of disruptions due to frequent occurrences of personnel resignation. More importantly, the hiring of external consultants signified the seriousness of SIRCs/*baytulmal* institutions in improving their operations despite struggling with shortages in manpower and expertise. Interviewees also mentioned there was low commitment to training or re-training personnel to keep pace with the rapid development of technology.

Throughout the interview survey, there was only one isolated instance of SIRC engaging external consultants for the purpose of introducing performance measurement using the KPIs. The limitation in financial resources and slender prospects of future expansion restrained most of these organisations from engaging with external consultants. Instead, they resorted to MAMPU, a government agency responsible for the modernisation of the Malaysian public sector, for any human resource training, organisational review, or restructuring.

7.12 Summary

Overall, the results of the interview survey seem to confirm the findings of the questionnaire survey, i.e. that the accountability systems, namely, the strategic planning, budgeting and budgetary controls, performance measurement and financial reporting, were in existence at some level. Greater freedom and flexibility granted to each respective SIRCs/*baytulmal* institutions over the managerial and fiscal operations resulted in considerable variations in the implementation of the accountability systems and thus the extent of the operational effectiveness of the systems. The interview survey also gave evidence of the complexity of the organisational structure as a contributing factor to the different extents of the implementation of the accountability systems.

Furthermore, the results of the interview survey provided further evidence to support the issues emerging from the questionnaire. The interview survey identified a wide array of challenges inherent in SIRCs/*baytulmal* institutions that had direct implications on the implementation of the accountability systems and hence their operational effectiveness. These include the lack of commitment and support of the top management, shortages of financial and human resources, the frequent occurrence of unplanned activities, lack of management information systems and backlogs of unsettled cases. Moreover, the insights of the NAD on the AI assessment were provided. The top management's lack of involvement in the financial management activities and high rates of staff (as well as top management) turnover weakened the effectiveness of financial management operations in these organisations. However, they perceived that AI led to improvements in the operational effectiveness of the accountability systems in the organisations.

There were mixed opinions on the state of *waqf* management in SIRCs/*baytulmal* institutions. The interviews showed that the critical managerial and fiscal deficiencies mentioned above contributed to the sluggish development programmes and activities of *waqf* resources in SIRCs/*baytulmal* institutions. There were strong opinions expecting JAWHAR to undertake more a proactive role as the coordinator for *waqf* activities in SIRCs/*baytulmal* institutions. Overall, a comprehensive approach to handling the managerial and fiscal issues surrounding the *waqf* management is inevitable in these organisations.

CHAPTER EIGHT: SUMMARY AND CONCLUSIONS

8.1 Summary of the Thesis

Chapter One of this thesis outlines the rationale and objectives of the study. Chapter Two is dedicated for the background of *waqf* and *waqf* experiences in the Muslim world. The chapter highlights the basic jurisprudence of *waqf* that is premised on the *ijtihad* rulings, the critical roles of *waqf* in reinforcing religious practices, imparting knowledge and enhancing education, expanding the economy, improving social security and strengthening power and authority. The substantial contributions of *waqf* in human civilisation are presented in the chapter, encompassing its triumphant period during the Ottoman Empire, stagnation period during the European colonisation and the revival era in the twentieth century.

Chapter Three offers an overview of the Malaysian government administrative and governance structures. The administrative structure of the Malaysian government is organised in three tiers: federal, state and local authorities. Federal government and state governments, in most instances, have the same administrative structure consisting of Departments and Statutory Bodies. The underlying governance structure of the Malaysian government, which is based on the 'separation of power' to each of the legislative, executive and judicial authority, is to ensure a fair and just governance system. In addition, the chapter highlights the position of the Malay Rulers as part of the governance system and empowered as the heads of Islam for each of their respective states. The crucial role of the Malaysian government in the advancement of Islam and Islamic institutions at all levels are also discussed in the chapter. Uniquely in Malaysia, Islam constitutes an integral part of the Malay identity, which is directly tied to Malaysia's elaborate system of Malay special privileges. The government policies on economic development are intertwined with public policies regarding Islam. An interest-free Islamic financial system was introduced in the economy and the Islamic ideals were incorporated in the public sector reforms aiming to promote efficiency, effectiveness and accountability of government organisations. Further, the historical perspective and present *waqf* management in Malaysia as well as its existing challenges are discussed in detail toward the end of the chapter.

Chapter Four presents the underlying theoretical framework of the study. The chapter describes the accountability framework drawn from the principal-agent relationship. Further, the chapter discusses the concept of accountability from the perspective of Islam, *taklif*, which acknowledges the existence of primary accountability (transcendental) to God for the entrusted assets and funds, and secondary accountability (physical) to relevant stakeholders. This concept of accountability in Islam would have triggered contracting parties to have a high standard of conduct in their activities and operations. In addition, the chapter discusses public sector reforms and the ideals of New Public Management (NPM) that focus at improving public sector efficiency, effectiveness, transparency and accountability. The public sector reform initiatives in Malaysia are also presented.

It is against this background that this study was undertaken and the methodology for both the questionnaire and interview survey is presented in great detail in Chapter Five. The primary aim of the survey was to obtain information on the accounting, accountability and effectiveness of *waqf* management under the trusteeship of SIRCs by examining the current practice of the principal management activities, namely, strategic planning, budgeting and budgetary control, performance measurement and financial reporting practices of SIRCs/*baytulmal* institutions. The survey has also been looking into the influence of the present accountability system of SIRCs/*baytulmal* institutions on the effectiveness of *waqf* management in Malaysia. The data analysis and findings of the questionnaire survey and the interview survey are the subject areas of Chapter Six and Seven respectively.

In summary, the results of both the questionnaire and the interview surveys seemed to fulfil the primary objective of this study to empirically investigate the accounting, accountability and the effectiveness of *waqf* management in Malaysia. SIRCs/*baytulmal* institutions were afforded significant managerial and strategic autonomy, which involved greater freedom and flexibility in the routine managerial and fiscal decision making as well as being able to make suggestions for their future positioning. However, the study revealed that SIRCs/*baytulmal* institutions appeared to experience inherent weaknesses long-term and short-term planning. The presence of strategic planning in SIRCs/*baytulmal* institutions was very limited and mainly conditioned upon external requirements. The recent surge in the production of strategic planning in most of these organisations was mainly to secure financial assistance from the Federal government for the development of *waqf* assets. Although budgets in SIRCs/*baytulmal* institutions appeared to function mainly as planning and control mechanisms, they were essentially input-oriented with less emphasis on the effectiveness and efficiency of resources' consumption and activities. The strict approach of budgetary control was more on ensuring the adherence to budgets. In addition, the absence of performance contract specifying the expectations of the top management to operational management has consequently led to limited delegation of authority and responsibility.

Performance measurement in these organisations focused more on improving the administrative capacity of the organisations rather than the efficiency and effectiveness of their programmes and activities. Among the measures adopted by SIRCs/*baytulmal* institutions to improve the quality of administrative work were the Clients' Charter, ISO, Quality Award and the remuneration-related performance measurement. The accounting operations in these organisations were prescribed by the accounting framework developed for commercial entities. Although it appeared to have produced the fundamental financial statements, the reporting practice had less focused on the stewardship/accountability dimension expected for the public sector and non-profit organisations. The absence of accounting framework for Islamic assets and funds held by SIRCs/*baytulmal* institutions would have also contributed toward the noticeable discrepancies in the financial reporting practices in these organisations.

Moreover, the study found that the size and type of funding that would be indicative of the sophistication of organisational structure and the type of funding appeared to contribute towards the diverse practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting practice in SIRC/*Baytulmal* institutions. Both the questionnaire survey and the interview survey revealed that the presence of inherent challenges of weak administrative capacity and financial inadequacy had contributed considerably to the state of art of the principal management activities in SIRC/*baytulmal* institutions. As SIRCs/*baytulmal* institutions were responsible for the administration and development of *waqf* assets, the study discovered that the present practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting had contributed towards the extent of the accountability of *waqf* management in Malaysia. It was also discovered that the accountability in the *waqf* management was restricted to the financial accountability derived from the statutory requirements.

8.2 Review of the Findings

The perceptions of 36 senior managers who responded to a series of questions relating to the accounting, accountability and effectiveness of *waqf* management in Malaysia were analysed based on the overall analysis and by control variables (organisational size and types of funding). In an attempt to provide further evidence, a series of semi-structured interviews was undertaken with senior and operational managers of SIRCs/*baytulmal* institutions, senior officials from the National Audit Department (NAD) and senior officials from JAWHAR and MWF. Both techniques provided an impression that the principal management activities of strategic planning, budgeting and budgetary controls, performance measurement and financial reporting were generally in place, with variations depending on the size and type of funding for their operations. The detailed summary of the findings is presented in the following sections.

8.2.1 Autonomy and Accountability

Responses of the questionnaire survey and the interview survey generally perceived that SIRCs/*baytulmal* institutions were granted greater freedom and flexibility in their organisational operations including the fiscal operation and the future positioning of the organisations, with the CEO being vested with the greatest authority for the overall operations of the organisations. External parties such as the Federal and State governments and the Treasury appeared to have very little influence on the managerial activities and future directions of these organisations. Interestingly, the interview survey revealed that the CEO was found to undertake most of the decision-makings collectively with the Board of Councils. This management style is perceived to be enhancing their accountability in handling public assets and funds, in particular those of an Islamic nature. However, despite the substantial managerial autonomy being granted to SIRCs/*baytulmal* institutions, the interview survey revealed that the personnel management (except for *baytulmal* institutions) is highly subjected to decisions of the Public Services Department (PSD). SIRCs are only authorised to manage the recruitment of personnel while the size of manpower and promotional exercises require the approval of the PSD. Most of the interviewees claimed that such policies have impeded the effectiveness and weakened the accountability of SIRCs/*baytulmal* institutions.

Data from both techniques seemed to agree that SIRCs/*baytulmal* institutions have strong accountability only toward the State Legislative Assembly and the NAD. The questionnaire survey indicates the accountability relationship was rather formal and derived from the statutory requirements and formal directives. The Statutory Bodies (Accounts and Annual Reports) Act 1980 and, the Financial Procedure Act 1957 and the Audit Act 1957 dictate the production of financial statements and annual estimates (budgets) by SIRCs/*baytulmal* institutions. The majority of respondents of the questionnaire survey and participants of the interviews, regarded annual budgets and annual reports were the most important accountability mechanisms regardless of the size and type of funding of the organisations.

Apart from the financial accountability relationship, the interview survey discovered the presence of an unstructured accountability relationship towards the Rulers or the elite. The relationship essentially arose from the position of the Rulers as the heads of Islam in each state, which in several instances substantially influenced the policy making of Islam and its affairs. It was highlighted by several participants that the differences in terms of expectations and priorities between the top management of SIRCs/*baytulmal* institutions and the elite gave rise to uncoordinated and unplanned activities. The prevalence of such relationship in a number of SIRCs/*baytulmal* institutions had discouraged the operational management to formulate any formal and written framework for the organisational activities.

8.2.2 Strategic Planning

The results of the questionnaire survey indicated that strategic planning appeared to be in existence in SIRCs/*baytulmal* institutions with a large number of responses indicated the active involvement of the CEO in strategic planning implying the support and commitment of the top management. On the other hand, the interview survey revealed that strategic planning was still in its infancy in the majority of SIRCs/*baytulmal* institutions. The overwhelming responses in the questionnaire survey on the existence of strategic planning could have been contributed by a one-off strategic planning formulated for the purpose of collaboration between SIRCs/*baytulmal* institutions and JAWHAR in developing *waqf* assets in Malaysia. According to the interviewees, strategic planning was only introduced in these organisations five years previously by MAMPU, which had also provided considerable inputs in the formulation of strategic planning framework. Despite this support, the interview survey revealed that only a very few SIRCs/*baytulmal* institutions had implemented strategic planning, while the rest of these organisations were still struggling in the formulation stage or not have even started.

Further, high rates of the '*ad-hoc'*, 'upon request' and 'upon directives' activities generally originating from superior government agencies and individuals as revealed by the results of the questionnaire survey may contribute to the overall position of strategic planning in SIRCs/*baytulmal* institutions. The interview survey also disclosed high rates of turn-over of operational staff and the top management was cited as the main factor for the sluggish implementation of strategic planning in SIRCs/*baytulmal* institutions. The large gap in human resources resulting from staff resignation and the frequent changes in the top management level appeared to have disruptive impacts on the implementation of strategic planning, even to the point where strategic planning was abandoned altogether. Respondents also indicated limited follow-ups to the operational and *waqf* activities, which could have profound effects on the effectiveness of strategic planning. Interestingly, the questionnaire survey reported that small and self-funded organisations are more concerned with strategic planning as compared to larger organisations and those that can have access to government's funding.

However, most participants were generally in agreement that SIRCs/*baytulmal* institutions attempted to adopt the important aspects of the National Development Plan (NDP) in formulating the strategic planning to ensure their development plans were consistent with the mainstream development agenda. Among the reasons highlighted by interviewees was to improve the potential of securing financial provisions from the Federal government. It has also become apparent that this was the compelling reason for the small and medium-sized SIRCs/*baytulmal* institutions that are also self-funded to engage in strategic planning in their organisations and provides the reason for the response in the questionnaire survey. Both the respondents of the questionnaire survey and the interviewees indicated that aligning the time frame of the strategic planning to the national development time frame between 3-5 years seemed to be very important particularly for securing financial support from the Federal government.

Interviews with participants revealed that the presence of a high degree of variation in the extent of strategic planning in SIRCs/*baytulmal* institutions. The majority of interviewees were unwilling to discuss in depth issues pertaining to strategic planning. As such, this study was not able to obtain information on the effectiveness of the strategic planning at the time when the interview survey was undertaken.

8.2.3 Budgeting and Budgetary Control

Undoubtedly, SIRCs/*baytulmal* institutions engaged considerably in budgeting and budgetary control activities, as did other public sector organisations in Malaysia. Both the questionnaire survey and the interview survey revealed that budgeting and budgetary controls appeared to be present in all SIRCs/*baytulmal* institutions with very limited involvement of external parties. Nonetheless, the interview survey discovered that there was no specific reference made to the Treasury budgeting system of Modified Budgeting System (MBS), except for two SIRCs that were funded by the federal government and state government. Interestingly, the interview survey discovered that the revenue budgets had supremacy over the expenditure budgets in SIRCs/*baytulmal* institutions. In other words, the size of expenditure budgets were dependent on the magnitude of anticipated collection of revenues. Discussion with interviewees revealed that the greatest proportion of financial resources to finance the operating expenditure, except for the fully-funded SIRCs, were largely derived from management fees for being the *amil* of *zakah* (fund manager) and *waqf* administrator as well as revenue generated by *waqf* activities (e.g. *waqf khairy*) and investment income and rental income of *baytulmal* assets and properties. In addition, interviewees generally shared a similar concern that the magnitude of public contributions was not that significant in comparison to the total expenditure of these organisations.

Based on the questionnaire survey, the ‘bottom-up’ culture of budget preparation was dominant in these organisations with active participation of the operational managers, namely, the Heads of Divisions/Departments and the Finance Director/Accountant. The majority of respondents in the questionnaire survey indicated that the CEO was vested with the principal authority in budget monitoring activities, namely budget reviews. A substantial number of respondents reported the active involvement of the Heads of Divisions/Departments and the Finance Director/Accountant in the budget monitoring, suggesting the existence of delegation of responsibility to operational managers in the budget management. Although the interview survey seemed to confirm the existence of participative budgeting culture in SIRCs/*baytulmal* institutions, the majority of interviewees suggested that greater participation of the top management in the budget execution was prompted primarily by the Accountability Index (AI) assessment conducted by the NAD. The AI rated the participation of the top management in financial management greatly. In addition, interviews with participants revealed that delegation of authority and responsibility to operational managers had not only been very gradual in SIRCs/*baytulmal* institutions but was restricted to the technical aspects of budgeting and budgetary control. Discussion with interviewees revealed that the absence of performance contracts specifying the responsibilities and expectation of the operational management appeared to have caused the lack of flexibility in authority. The situation was particularly prevalent in small and medium-sized SIRCs, where even routine expenditure commitments and expenditure payments were directly managed by the CEO. The need to adhere strictly to budgets necessitated the involvement of the top management. The laxity in ‘let managers manage’ concept was also noticeable in SIRCs that adopted MBS as their budgeting system. Participants from these two organisations revealed that the demand for them to conform to the time frame and workflows of the Treasury had compelled them to adopt the budgeting system.

In allocating the restricted financial resources, discussions with participants revealed that budget allocation in SIRCs/*baytulmal* institutions went through several stages of deliberations, namely the technical examination, the *Shari'ah* screening and the Board of Councils' scrutiny before finally approved by the Ruler. There were two stages of technical screening, both of which involved detailed examinations of the magnitude and justification of the budgets. Practically, the budget allocation is determined at the second stage of the technical screening by the CEO. The *Shari'ah* screening was performed to ensure all activities conducted by SIRCs/*baytulmal* institutions including the utilisation of financial resources are in conformance to the *Shari'ah* precepts considering significant amount of the resources are Islamic in nature. The practice of this *Shari'ah* screening, however, differs between organisations. It could either be performed by the *Fatwa* Committee set up by the state government or by the Board of Councils whose members include credible religious authorities, such as the *Mufti,* the Deputy *Mufti* and the Chief *Shari'ah* judge. Otherwise, the opinion of the *Fatwa* Committee or relevant Islamic officials in the state would be sought if doubtful circumstances arose during the budget execution. The budgets needed to be endorsed by the Board of Councils to confirm that the overall budget was consistent with the existing policies and objectives of the organisations. The interview survey revealed that the final approval of annual budgets in SIRCs/*baytulmal* institutions varies depending on the statutory directives, namely by the state legislative authorities (such as the State Legislative Assembly) or the Ruler or the King.

The results of the questionnaire survey indicated that budgetary control in SIRCs/*baytulmal* institutions was relatively stringent, which could have been due to limited financial resources. Formal budget reviews were mostly undertaken on a monthly basis, which could have been triggered by the monthly distribution of hard-copy print-outs of budgetary control data, while the quarterly frequency budget reviews were perceived being undertaken in conjunction with meetings of the Committee of Financial Management and Accounts held once every four months. The interviewees in general shared the same concern about the limited financial resources in SIRCs/*baytulmal* institutions and highlighted the presence of stringent budgetary controls. All financial commitments were insisted to adhere to the budgets even that could mean a trading-off to their functions of delivering services. The questionnaire survey indicated that small and medium-sized SIRCs/*baytulmal* institutions seemed to be more concerned with budgetary controls. Based on the interview survey, the state of the financial position of several SIRCs were critical and thus necessitated the direct involvement of the top management, particularly the CEO, in the budgetary control to ensure budget compliance. Although this management style tended to preserve bureaucratic decision-making, participants insisted that the top management involvement in the budgetary controls was vital for their financial 'survival'.

Interestingly, despite the inherent financial shortages, the interview survey discovered that the input-oriented budget dimension was prevalent in SIRCs/*baytulmal* institutions, suggesting that the performance of budget was predominantly evaluated by the level of input consumption measured in monetary value (i.e. expenditure) rather than on the relative performance of resources' consumption (i.e.effectiveness and efficiency). The majority of participants disclosed that hardly any attempt was made to measure the effectiveness and efficiency of resource consumption despite the organisations' very limited financial resources. It was also revealed by the interview survey that budget monitoring activities in these organisations, regardless of size and type of funding, became very challenging due to the untimely reporting of the budgetary control data. Less than a quarter of SIRCs/*baytulmal* institutions had computerised their budgeting system. In short, the findings discovered by the interview survey confirmed the perception of senior managers in the questionnaire survey that an annual budget is the most important planning and controlling mechanism, regardless of the size and the type of funding of their organisations.

8.2.4 Performance Measurement

The study only investigated the fundamental aspects of performance measurement, bearing in mind the present organisational sophistication of SIRCs/*baytulmal* institutions. The results of the questionnaire survey indicated the presence of performance measurement practices in all SIRCs/*baytulmal* institutions with financial indicators appeared to be more commonly used in these organisations. However, it became apparent from the interviews that non-financial indicators were the most frequently encountered performance indicator, and not financial indicators, as reported by the questionnaire survey. The confusion could be attributed to the strong emphasis on the budget efficiency that typically made reference to financial indicators. Furthermore, interviewees acknowledged the difficulty in measuring the cost of relevant inputs associated with services provided had led the dearth of financial indicators in these organisations. The use of KPIs in performance measurement was little in evidence in SIRCs/*baytulmal* institutions. As at the time the interview survey was undertaken, only one organisation appeared to have developed and implemented the KPIs. Participants generally cited a shortage of expertise and lack of personnel as among the major causes of the very limited financial performance indicators.

The results of the questionnaire survey on performance reviews in SIRCs/*baytulmal* institutions tended to correspond to the trend of the budgeting practices. For instance, performance reviews were conducted with a similar frequency as the formal budget reviews, with monthly reviews appearing to be the most frequent occurrence, followed by those carried out on a quarterly basis. Further, the results of the questionnaire survey indicated the active involvement of both the CEO and the Heads of Divisions/Departments in the process of establishing performance indicators. In terms of performance monitoring, the survey revealed that small SIRCs/*baytulmal* institutions seemed to conduct more frequent performance reviews in comparison to the medium-sized and large SIRCs/*baytulmal* institutions. In small organisations with minimum organisational sophistication, the involvement of the top management in the operational activities may indicate inadequate segregation of duties and responsibilities due to the restricted number of personnel. With regard to performance reporting, Annual Reports and management reports were predominantly used to report performance information. The use of websites of the organisations, internal circulars and mass media appeared to be limited.

Interviews with participants, however, discovered that SIRCs/*baytulmal* institutions placed more emphasis on the quality administrative work culture and remuneration-related performance measurement. The majority of SIRCs/*baytulmal* institutions have adopted to a certain degree, the comprehensive quality improvement consisting of the Clients' Charter, MS ISO 9001 and the 5Ss (Sort, Set in Order, Shine, Standardise, Sustain). However, the main focus was on the Clients' Charter of the fourteen-day payment process, as this gives the impression on the efficiency of public services in fulfilling the public's expectations. Interestingly, the performance indicator in the remuneration-related performance measurement, the AWTs is not only being used for remuneration and promotion purposes, but has been extended to other managerial operations such as strategic planning. In this case, participants indicated that the development of the AWTs would undergo robust evaluation by the top management to ensure they were congruent with the objectives of the organisation. In reporting performance information, however, SIRCs/*baytulmal* institutions primarily employed the traditional management reports and financial statements. The use of mass media and websites was very limited. Instead, performance information was frequently disseminated to interested users by conventional reporting media such as flyers, periodical newsletters or bulletins.

8.2.5 Financial Reporting Practices

The results of the questionnaire survey indicated that SIRCs/*baytulmal* institutions conformed to the statutory requirements in the reporting of financial information. Financial statements required by FRS 101 appeared to be produced by all SIRCs/*baytulmal* institutions, with exception for the Cash Flow Statements, Balance Sheets and Notes to the accounts, which seemed to be reported to varying extents in these organisations. Fund accounting was employed by all SIRCs/*baytulmal* institutions for reporting financial information, which conform to the legal requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980. On the other hand, only about a quarter of medium-sized and large SIRCs/*baytulmal* institutions produced annual reports, while the majority of these organisations simply had the financial statements being audited by the NAD and later be gazetted in the state repository for public reference. Interviews with finance officer of small organisations had cited manpower shortages as the primary reason for the non-production of the annual reports, which directly impacted upon the transparency and hence the accountability of the organisations. Discussions with interviewees and physical inspections of financial statements revealed the existence of discrepancies in the presentation and content of the financial reporting, as well as the measurement bases employed by SIRCs/*baytulmal* institutions.

In terms of the regulatory framework, respondents of the questionnaire survey reported that SIRCs/*baytulmal* institutions placed considerable reliance on Financial Reporting Standards for accounting prescriptions. A lesser degree of reliance was indicated for the Government Accounting Standards (GAS) and the *Waqf* Manual, which could be attributed to their lack of enforceability. However, the Statutory Bodies (Accounts and Annual Reports) Act 1980 and the Treasury Instructions (TIs) that dictates the use of accrual basis of accounting and describes the internal control systems and budgeting practices respectively appeared to be important elements in the accounting framework of SIRCs/*baytulmal* institutions. Finance officers and accountants in the interview survey confirmed that largely SIRCs/*baytulmal* institutions relied significantly to the accounting prescriptions of the FRSs issued by the Malaysian Accounting Standard Board (MASB), which were originally developed for profit-making entities. These participants, however, shared a general concern that relevant accounting bodies such as MASB should give priority to the needs of distinct accounting prescriptions for non-banking Islamic financial institutions.

Further, the questionnaire survey indicated that fundamental financial information of SIRCs/*baytulmal* institutions, such as revenues, expenditures, cash flows, assets and liabilities appeared to be most frequently reported in management reports, implying the primacy of this information for internal management decision-making purposes. Other reporting media such as internal circularisation, websites, ceremonies/events and mass media were very occasionally employed by these organisations to disseminate financial information. In terms of voluntary disclosure, SIRCs/*baytulmal* institutions seemed to pay more attention to the reporting year's activities in comparison to the future year's activities in the descriptive information section. This may be due to the uncertainty of the public contributions to finance future programmes and activities. The interview survey discovered that only a few number of SIRCs had integrated financial management systems that comprises an accounting system, a budgeting system and a subsidiary system to sustain the expanding trend of financial management.

8.2.6 External Consultants

The majority of respondents in the questionnaire survey indicated that external consultants in SIRCs/*baytulmal* institutions were mainly hired for accounting system purposes. This could involve the development of a new computerised accounting system or upgrading the present accounting system in accordance with the present operational requirements. The engagement of external consultants for performance measurement, development of e-government, personnel management and organisational reviews in SIRCs/*baytulmal* institutions seemed to be very limited. The inherent financial constraints in SIRCs/*baytulmal* institutions could have restricted these organisations from engaging external consultants even for critical organisational advancement. In small SIRCs/*baytulmal* institutions for instance, little prospect of future expansion and a less complex organisational structure could have discouraged them from hiring external consultants for organisational reviews. Alternatively, SIRCs/*baytulmal* institutions may engage government agencies such as INTAN and MAMPU to provide for the personnel and conduct organisational reviews, respectively.

8.2.7 Management of Waqf

Based on the questionnaire survey, *waqf* management activities in SIRCs/*baytulmal* institutions could now be traced distinctively within the general management of the organisations. The interview survey discovered that it had similar trends and practices and experienced the same managerial and fiscal deficiencies as the management of SIRCs/*baytulmal* institutions. For instance, prior to the organisational restructuring that took place between 2000 and 2008, the majority of SIRCs shared administrative framework with SIRDs, which included sharing key personel. The organisational restructuring resulted to the creation of distinct administrative units to execute their functions. *Waqf* programmes and activities in most SIRCs/*baytulmal* institutions are now managed by separate administrative *waqf* units or divisions, depending on the prevailing size of *waqf* assets and funds. Participants of the interview survey insisted that the organisational restructuring was one of the major reform initiatives to enable these organisations functioning effectively in mobilising Islamic resources for the socio-economic progress of the Muslim community.

Further, the interview survey indicated that SIRCs/*baytulmal* institutions appeared to separately formulate strategic planning for *waqf*, prepare annual budgets for *waqf* activities, and prepare separate *waqf* financial statements. A large number of respondents perceived that the effectiveness of *waqf* management was significantly influenced by the existing strategic planning practice and budgeting system in the organisations. In terms of financial management of *waqf*, the questionnaire survey revealed that the level of adoption of the *Waqf* Accounting and Management Manual (*Waqf* Manual) in SIRCs/*baytulmal* institutions, which was intended to redress the noticeable variations in the reporting of *waqf* information, was very modest. Despite this trend, the questionnaire survey revealed that there was strong agreement among respondents that *Waqf* Manual could contribute in improving the financial reporting of *waqf* and enhance the quality of *waqf* information.

The interview survey confirmed the existence of noticeable discrepancies in the presentation and accounting treatments between organisations. The majority of participants claimed the absence of specific accounting prescriptions for *waqf* to be the major factor in the diverse manner of reporting *waqf* financial information. Participants also acknowledged the modest adoption of the *Waqf* Manual was primarily due to its lack of enforcibility. In most of these organisations, *Waqf* Manual was not automatically adopted for the preparation of financial statements without the approval of the higher level of management and in some extreme cases, the consent of the Rulers. Ironically, this situation was prevalent in these organisations despite the fact that their finance personnels had significantly involved in the production of *Waqf* Manual.

In addition, the questionnaire survey indicated the existence of collaborative arrangements between JAWHAR and SIRCs/*baytulmal* institutions for the development of *waqf* assets and properties. Nonetheless, there were strong opinions among the participants expecting JAWHAR to undertake a more proactive role as the coordinator for *waqf* activities in SIRCs/*baytulmal* institutions. Since the sluggish development programmes and activities of *waqf* under the trusteeship of SIRCs/*baytulmal* institutions appeared to be contributed by inadequate financial and human resource, this group of participants insisted that relevant authorities, particularly JAWHAR should devise a comprehensive approach to handling managerial and fiscal issues surrounding the *waqf* management. They strongly argued that strong financial and human capacity were pre-requisites to effective development programmes and activities in these organisations. It is also worth noting that the questionnaire survey revealed of the very limited influence of federal religious authorities such as JAKIM, JAWHAR and WMF on *waqf* management in SIRCs/*baytulmal* institutions.

8.3 Recommendations for Practice and Theoretical Implications

The study revealed noticeable deficiencies and discrepancies in the current practices of strategic planning, budgeting and budgetary control, performance measurement and financial reporting of SIRCs/*baytulmal* institutions. The situation was expected to have a profound impact on the extent of the accountability and effectiveness of *waqf* management in the organisations. The study also discovered that such deficiencies and discrepancies could have been contributed by inherent laxity of financial and human resources and the absence of enforceable accounting framework for non-financial Islamic sector. Therefore, the study proposes that recommendations are to be approached from the organisational perspective and the national levels separately. Any recommendation for changes due to the lack of administrative capacity and financial inadequacy in these organisations, however, should be based on a finely-tuned understanding of the causes of the malfunctions (Bale and Dale 1998). Specific weaknesses related to individual SIRCs/*baytulmal* institutions need to be addressed by the management of that particular SIRCs/*baytulmal* institutions. On the other hand, the commitment of coordinating authorities such as JAWHAR, PSD, NAD and MASB was insisted to address the inherent financial and manpower shortages, lack of effective and accountable management and diverse financial reporting practices. The recommendations of this study were to ensure SIRCs/*baytulmal* institutions operate competitively against other Islamic organisations and thus be able to function effectively in the socio-economic development of Muslim community.

SIRCs/*baytulmal* institutions appeared to be very weak in the long-term planning. Strategic planning was not widely implemented by SIRCs/*baytulmal* institutions and its existence in these organisations was limited for specific purposes. Strategic planning assists organisations to position their long-term direction as well as to improve the effectiveness of organisational operations. It is therefore suggested that SIRCs/*baytulmal* institutions attend to the need of formulating strategic planning and thus position their future direction. Since the support of the top management is a crucial factor in any organisational activity, SIRCs/*baytulmal* institutions are recommended to create awareness among key officials on the importance of strategic planning in positioning the future direction of the organisations. Exposure on the issue could be realised by sending these officials to attend intensive trainings and workshops at INTAN, MAMPU or higher learning institutions.

The study revealed that annual budgets in SIRCs/*baytulmal* institutions function primarily as planning and controlling mechanisms despite the fact that financial resources were very limited. The present budgeting and budgetary control systems in almost all SIRCs/*baytulmal* institutions were input-oriented with very little emphasis on the performance of input utilisation. The allocation of financial resources was strictly based on the extent of input utilisation and very rarely on its relative effectiveness and efficiency. The absence of integrated financial management information system in most of SIRCs/*baytulmal* institutions appeared to have contributed to the present budgeting practices and budgetary control system. One of the consequences was limited existence of financial measures for performance measurement purposes. Without clear performance measures, delegation of authority and responsibility to operational managers could not be effectively undertaken in these organisations, which essentially led to ineffective budget management. In short, the present budgeting practices and budgetary control system had not been assisting SIRCs/*baytulmal* institutions in prioritising the utilisation of their limited financial resources to competing programmes and activities. It is therefore crucial for the management of respective SIRCs/*baytulmal* institutions to develop an integrated financial management system comprising budgeting system, financial accounting system and relevant subsidiary systems. The system would enable SIRCs/*baytulmal* institutions to devise a performance-based budgeting system, which would help to prioritise the allocation of limited financial resources to competing competing programmes and activities. Alternatively, SIRCs/*baytulmal* institutions are recommended to implement with appropriate modifications, the Treasury budgeting system of MBS. This performance–based budgeting system could be used to help improve the allocation of limited financial resources in SIRCs/*baytulmal* institutions.

The study also discovered that a significant number of SIRCs/*baytulmal* institutions maintained their accounting information manually. Manual operations of accounting systems were prone to inaccuracies in information and delays in the data processing, which could have profound effects on budgetary control and financial reporting activities. In several intances, the NAD has raised concerns over the delay in the production of financial statements in SIRCs/*baytulmal* institutions. Computerisation of the accounting operations seeks to improve the accuracy of accounting information as well as the timeliness of financial reporting. Similar to the earlier recommendation for budget management, SIRCs/*baytulmal* institutions is recommended to attend to the need of a computerised accounting to system. An integrated financial management system is one of the conditions for an accountable management.

The above recommendations for improving the performance and accountability of SIRCs/baytulmal institutions would not be feasible without parallel improvement of their administrative functions. Based on data gathered in the study, the personnel management in SIRCs requires some policy improvements. At present, aspects pertaining to creations of new posts and promotional exercises in SIRCs are subject to procedures of the PSD. The study discovered instances in which policies issued by the PSD had unfavourably affected the operations of SIRCs. For instance, the organisational restructuring initiatives of most SIRCs which took place between 2000 to 2008 were hampered by a directive of the PSD that restricted the creation of new posts in public sector organisations. For the purpose of minimising manpower-related disruptions in SIRCs, the PSD is recommended to extend flexibilities in personnel management to SIRCs covering aspects of creation of new posts as well as promotional exercises. This is perfectly acceptable for two reasons: first, the remuneration of all personnel is borne by SIRCs and second, the organisational requirements and expectations in the Malaysian public sector differ between organisations. The flexibilities in personnel management may also address the shortages of manpower due to frequent resignations. The flexibilities would enable respective SIRCs to establish a personnel back-up system and devise an employment scheme to reduce the turn-over rates. In addition, the flexibilities would allow SIRCs to expose their personnel to private sector management practices and culture by undergoing industrial attachments. These personnel could be posted for a stipulated period of time to private companies or other public sector organisations to obtain valuable knowledge, which later be disseminated in SIRCs.

Another pressing concern for the accountability of *waqf* management in Malaysia pertains to the absence of an accounting regulatory framework. The study revealed two important findings as a result of the absence of an accounting regulatory framework. First, the accounting operations for *waqf* activities in SIRCs/*baytulmal* institutions were significantly dictated by the present accounting standards developed for profit-making organisations. These standards advocate the decision-making dimension of financial reporting, which is inconsistent with the reporting dimension of non-profit or public sector organisations of stewardship/accountability. Second, there were considerable discrepancies in the reporting practices of *waqf* financial information. Consequently, relevant authorities and interested parties were not able to undertake comparative financial evaluation of the performance of these organisations. With the growing interest of the public in *waqf* activities and the existence of substantial *waqf* development activities in Malaysia, the MASB and other relavant accounting authorities, are urged to develop an appropriate accounting framework and standards for *waqf* activities. Accounting standards issued by the MASB are enforceable and thus would be automatically adopted by these organisations.

Waqf management in Malaysia requires the support of JAWHAR in terms of administrative and technical aspects. The study revealed that the present *waqf* management in SIRCs/*baytulmal* institutions experienced critical shortages of technical and financial expertise to manage their operations effectively. As a coordinating agency, JAWHAR is expected to provide a platform for exchange of knowledge and expertise among personnels of SIRCs/*baytulmal* institutions as well other relevant government agencies. JAWHAR is also suggested to establish appropriate relationships and hold discussions with relevant public sector organisations, including the PSD and the Treasury, in an attempt to address the inherent shortages in financial resources and personnel in SIRCs/*baytulmal* institutions. In addition, JAWHAR is also expected to initiate collaborations with institutions of higher learning and private sector in Malaysia and overseas for the purpose of improving *waqf* activities in Malaysia.

Overall, the realisation of the above recommendations may not be attained without the political commitment of the Malaysian government. Administrative improvements in public sector organisations requires the political commitment of the government, as some of the recommendations would involve changes to the existing policies and directives.

8.4 Limitations and Scope for Future Research

The coverage of this study is limited by the time and resources available for the completion of a Ph.D. thesis, but some further limitations are recognised. In spite of the following limitations, a considerable effort was undertaken in the study to ensure that the original aims and objectives of the study were met and the research objectives as stated in Chapter One were answered. Firstly, the study was confined to the examination of the accounting, accountability and effectiveness of *waqf* management in SIRCs/*baytulmal* institutions. The study did not make reference to the accounting, accountability and effectiveness of *waqf* management in other entities such as corporations, foundations, associations, educational institutions and private individuals.

Secondly, there is an obvious limitation with regard to the responses provided by managers regarding the limited effectiveness of the principal management tools in the study. They might perceive that the weaknesses in the execution of these principal management tools reflect their inability to perform. This may produce bias in their perceptions, with only slightly more than sixty-four percent of responses for the questionnaire survey. However, triangulation of data was undertaken through the interview survey to minimise the bias generated by research respondents. Thirdly, the study only investigated the principal management tools of strategic planning, budgeting and budgetary control, performance measurement and financial reporting practices when assessing the accounting, accountability and effectiveness of *waqf* management in Malaysia. The study did not take into account other specific administrative initiatives issued by MAMPU from time to time, such as the directives regarding the administration of customer relations and other financial circulars issued by the Treasury that could have contributory effects on the effectiveness and accountability of *waqf* management in

SIRCs/*baytulmal* institutions. Thus the generalisation of this finding may be specific to the four principal management tools of strategic planning, budgeting and budgetary control, performance measurement and financial reporting practices.

There are four ways in which the research as a whole could be extended. First, the perceptions and experiences of other entities such as corporations, foundations, associations, educational institutions and private individuals on the accounting, accountability and effectiveness of *waqf* management could be incorporated. This could be undertaken by distributing the same questionnaire used in the study to the management of these entities. Second, future research should attempt to obtain the perceptions of the definite beneficiaries and the public of the accounting, accountability and effectiveness of SIRCs/*baytulmal* institutions as the legal and sole *waqf* trustees in Malaysia.

Third, a case study approach that assesses the performance and accountability of *waqf* management in a particular SIRC could be valuable to the accumulation of knowledge on *waqf* management in Malaysia. Since this study revealed a high degree of variation in the accounting, accountability and effectiveness of *waqf* management in SIRCs/*baytulmal* institutions, a selection of cases could be made from these SIRCs/baytulmal organisations themselves. In-depth comparative research could also be undertaken by studying cases of organisations that have a lesser degree of accounting, accountability and effectiveness and those that demonstrated a greater degree of performance and accountability. This would provide an in-depth analysis of the organisational strengths or weaknesses that could have contributed to the prevailing level of accounting, accountability and effectiveness in these organisations. Further, a comparative research on *waqf* management could also be undertaken by looking into the accounting, accountability and effectiveness of selected SIRCs/*baytulmal* institutions and other entities that undertake *waqf* management such as corporations, foundations, educational institutions, and associations. Again, the in-depth analysis would be beneficial for understanding the organisational structure, environment and culture that may contribute to the accounting, accountability and effectiveness of *waqf* management. Future research could also employ a case study approach for organisational performance research, in order to examine the organisational performance and accountability of a specific organisation.

Research could also be extended to *waqf* management in other Muslim countries, particularly the ASEAN countries such as Singapore and Indonesia that have accumulated considerable *waqf* assets and funds and more importantly share a similar background in the development of Islam and Islamic institutions. This research could also be undertaken in other public sector organisations that involve in the management of Islamic assets and funds.

8.5 Contribution of the Study

The main contribution of this study to knowledge stems principally from the fact that the research takes an holistic approach in assessing the accounting, accountability and effectiveness of *waqf* management in Malaysia, which is currently under the trusteeship of SIRCs/*baytulmal* institutions. Generally, this study provides evidence of limited accountability and effectiveness in the *waqf* management in Malaysia. There were also limited evidence of reforms in the financial management and administrative aspects in SIRCs/*baytulmal* institutions to address the pressing demand for better performance and greater accountability. Although these organisations are subject to financial and administrative frameworks of the Malaysian public sector, the extent of adoption of financial and managerial reforms initiatives introduced by the Malaysian government were limited and varied considerably. In addition, the presence of inherent challenges in financial and administrative aspects hampered SIRCs/*baytulmal* institutions from experiencing the potential benefits of the reforms. In particular, SIRCs/*baytulmal* institutions experienced high turn-over rates of personnel with expertise in accounting and information technology, and lack of commitment and support from the top management. The study therefore contributes towards a better understanding of the present deficiencies and variations in accounting, accountability and effectiveness of *waqf* management in Malaysia. The study also provides useful insights to help SIRCs/*baytulmal* institutions and relevant *waqf* authorities, particularly, JAWHAR to chart the future direction of the accounting, accountability and effectiveness of *waqf* management in Malaysia.

In addition, the appointment of SIRCs as the legal and sole *waqf* trustees in Malaysia signifies the trusteeship of *waqf* in Malaysia under the public sector. SIRC is a state agency established pursuant to state enactments. Since the 1980s, the Malaysian government has introduced private sector accounting and management techniques, output-based accountability system, greater autonomy to civil servants, and emphasis on the greater use of output-based performance measurement. These initiatives were labelled as Financial Management Initiatives and Managerial reforms, which were intended to be adopted by all levels of government departments, agencies and local authorities, including at state government level. Therefore, the findings of the study contributes towards a greater understanding of the public sector reforms at the state government level. Currently, research interest in public sector reforms in the Malaysian context is largely focused on the federal government level, and there is a marked lack of empirical evidence as to the relevance of NPM for state government. In particular, the examination of the state of budgeting and budgetary control and financial reporting practices of *waqf* management in Malaysia contributes to the accounting literature on government organisations in developing countries.

A further contribution of this study to knowledge is reflected in the research design to assess the accounting, accountability and effectiveness of *waqf* management in Malaysia. A cross-sectional design was adopted, with two main stages of data collection (the questionnaire survey and the interview survey). The majority of respondents who participated in this study were officers who had experience of working with SIRCs/*baytulmal* institutions, and in particular, who were directly involved in the management of *waqf* or conversant with the financial management of the organisations. This was important to enable accurate assessment of the effectiveness and accountability of the *waqf* management in these organisations. A similar research design has been applied in assessing the effectiveness of public sector reforms in developed countries (Pendlebury and Karbhari 1997) and developing countries (Mohamad 2004). Thus, a similar research design could possibly be applied to examine the effectiveness and accountability of *waqf* management and/or to examine the diffusion of public sector reforms at state/provincial level of other developing countries.

Overall, the perceptions of those participating in this research effort provided adequate evidence that the accounting, accountability and effectiveness of *waqf* management in Malaysia not only varied greatly in practice but were also limited in evidence in several cases. However, it was encouraging to learn that there were several financial management and managerial reforms undertaken by SIRCs/*baytulmal* institutions to improve the effectiveness of the principal management tools and thus promote accountability to their beneficiaries and the public.

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APPENDIX – QUESTIONNAIRE

A Research Survey

on

AN EMPIRICAL EXAMINATION OF THE ACCOUNTING, ACCOUNTABILITY AND PERFORMANCE MEASUREMENT PRACTICES OF STATE ISLAMIC RELIGIOUS COUNCILS (SIRCs) IN MALAYSIA

SITI ALAWIAH SIRAJ
Lecturer
Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia
Selangor

Under the supervision of:
Dr Yusuf Karbhari
Cardiff Business School
Cardiff University
Wales
United Kingdom

A SURVEY ON AN EMPIRICAL EXAMINATION OF THE ACCOUNTING, ACCOUNTABILITY AND PERFORMANCE MEASUREMENT PRACTICES OF STATE ISLAMIC RELIGIOUS COUNCILS (SIRC) IN MALAYSIA

About the Study:
The primary objective of this study is to empirically examine the accounting, accountability and performance measurement practices of State Islamic Religious Council (SIRC) as the sole waqf trustee for the management of waqf assets and properties. Waqf is an Islamic endowment aimed to provide benefit to the general public or its intended beneficiaries. An effective and accountable management of the assets and properties are vital to ensure the objectives of waqf are met.

Instruction:
Please answer each question by placing a tick (√) in the appropriate box, or by circling the appropriate number. You can be assured that the details you provide will be treated in the ***STRICTEST OF CONFIDENCE****. Any results disclosed will be done so in aggregate form and individual organisations will not be identified.*

GENERAL INFORMATION:

1. Approximate **number of full-time employees** in your organisation:

	No. of employees
Management & Professional	
Support Group	
Others (please state): ____________________	

2. Approximate **number of employees** involved in the **administration of waqf** in your organisation:

	No. of employees
Management & Professional	
Support Group	
Others (please state):_______________________	

3. Approximate **value of operating expenditure for 2009 (in RM)** of your organisation:

Budgeted operating expenditure	RM
Actual operating expenditure	RM

4. Approximate **value of waqf assets (in RM)** managed by your organisation:

Land and building	RM
Cash/shares	RM
Others (please state): ______________________	RM

A. **<u>Organisational Characteristics</u>**

1. Please indicate the <u>nature of financial resources</u> of your organisation:

   ☐ Fully funded by the federal government

   ☐ Fully funded by the state government

   ☐ Partially funded by the federal government

   ☐ Partially funded by the state government

   ☐ Self-sustained by SIRC

   ☐ Others: (please specify) ____

2. Does your organisation have any collaboration with other institutions/organisations?

   ☐ Yes ☐ No

3. If **Yes**, please indicate the type of institution that your organisation is collaborating with:

   ☐ Public sector ☐ Private sector

   ☐ Non-governmental organisations ☐ Other (please state): _______________
   ____

4. Does your organisation have any plan to corporatise/privatise any section/activity of the organisation?

   ☐ Yes ☐ No

5. If **Yes**, please state the sections/activities planned for corporatisation/privatisation:

   i. Corporatisation:____

   ii. Privatisation: ____

<u>B. Issues on Autonomy and Accountability</u>

1. Please indicate who has the main <u>executive authority</u> to set the priority of activities within your organisation? (*Please place a tick (√) in the appropriate box*)

Level of authority of:		None	Partial	Subs-tantial	Full
1.	Yang DiPertua/Chairman/CEO				
2.	Members of Council				
3.	State Government				
4.	Federal Government				
5.	Treasury				
6.	Other (s), please state: ____________________ ______________________________________				

2. Please indicate the extent of influence of the following federal religious authorities on the administration of waqf in your organisation. (*Please place a tick (√) in the appropriate box*)

Level of influence of:		None	Partial	Sub-Stantial	Full
1.	Department of Islamic Development Malaysia (JAKIM)				
2.	Department of Zakah, Hajj and Awqaf (JAWHAR)				
3.	Malaysian Waqf Foundation				

3. Please indicate the level of accountability that your organisation has towards the following authorities by circling the appropriate box based on the scale from 1 to 5 (where 1 means None and 5 is Full Accountability):

Level of accountability:		None	Partial	Sub-Stantial	Full
1.	Parliament				
2.	State Legislative Assembly				
3.	Federal Treasury				
4.	State Treasury				
5.	Auditor General Department				
6.	Public Accounts Committee				
7.	Others:______________________________				

4. Please indicate the importance of the following items that your organisation attaches in discharging its accountability by placing a circle in the appropriate box based on the following scale from 1 to 5 (where 1 means Not Important and 5 Very Important).

Level of importance:		Not Important	Less Important	Neutral	Important	Very important
1.	Strategic Planning	1	2	3	4	5
2.	Annual budgets	1	2	3	4	5
3.	Performance measurement system	1	2	3	4	5
4.	Performance report	1	2	3	4	5
5.	Annual Reports	1	2	3	4	5
6.	Others (please state):_________________	1	2	3	4	5

5. Please indicate the level of authority that your organisation is afforded with regards to the following management activities by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 means None and 5 is Full Autonomy):

Level of autonomy:		None	Partial	Neutral	Sub-stantial	Full
1.	Organisational goals and objectives	1	2	3	4	5
2.	Long term planning	1	2	3	4	5
3.	Annual budget	1	2	3	4	5
4.	Investments	1	2	3	4	5
5.	Performance measurement	1	2	3	4	5
6.	Performance reviews	1	2	3	4	5
7.	Accounting system	1	2	3	4	5
8.	Staff management	1	2	3	4	5
9.	Others (please state):_________________	1	2	3	4	5

Questions 6 to 8 are designed to obtain specific information on the cooperation between SIRC and the Malaysian Waqf Foundation (*Yayasan Waqaf Malaysia [MWF]*) in developing *waqf* properties throughout the country. The Foundation started its operations in June 2008.

6. Has your organisation commenced any cooperation with MWF in developing *waqf* properties?

   ☐ Yes ☐ No

7. If Yes, please indicate the financing structure in developing *waqf* properties under the arrangement:

   ☐ Fully funded by federal government
   ☐ Fully funded by state government
   ☐ Partially funded by federal government
   ☐ Partially funded by state government
   ☐ Fully funded by SIRC
   ☐ Cash waqf raised by MWF
   ☐ Partially funded by SIRC
   ☐ Private sector
   ☐ Individuals

8. Please indicate the extent to which you feel that the cooperation between MWF and SIRCs would have impacted on the accountability and operational effectiveness of waqf administration by circling the appropriate box based on the scale from 1 to 5 (where 1 means Strongly Disagree and 5 is Strongly Agree):

The collaboration between MWF and SIRC is expected to:		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Improve the overall effectiveness of waqf administrations	1	2	3	4	5
2.	Improve the process of accountability of waqf administration	1	2	3	4	5
3.	Enhance the delivery of services to waqf beneficiaries and the public	1	2	3	4	5
4.	Create a commercial culture in the waqf administrations	1	2	3	4	5
5.	Improve long-term planning in the waqf administrations	1	2	3	4	5
6.	Improve operational planning in the waqf administrations	1	2	3	4	5
7.	Others (please state): ____________________________	1	2	3	4	5

C. Issues in Strategic Planning

1. Does your organisation have any strategic planning framework for the following activities?

	YES	NO
Operational activities	☐	☐
Capital investment	☐	☐
Waqf activities	☐	☐

2. Please indicate which of the following best describes the approach used in carrying out activities in your organisation (*You may tick more than one box if appropriate*):

☐ Strategic Planning ☐ Ad-hoc basis

☐ Upon request ☐ By Directives

☐ Others (please specify): ____________________________

3. Does your organisation incorporate a cost-benefit analysis in the planning framework?

☐ Yes ☐ No

4. Which of the following best describes the range of period for your organisation's strategic planning?

☐ 1-2 years ☐ 3-5 years

☐ 6-10 years ☐ Beyond 10 years

☐ Others (please specify): ____________________________

5. Please indicate who participates in the planning processes within your organisation? (*You may tick more than one box if appropriate*)

☐ Chairman/CEO ☐ Head of Division/Dept/Managers

☐ Members of Council ☐ External auditors

☐ Advisory Boards ☐ Others (please specify):_____________
____

6. Please indicate the level of importance that your organisation attaches to the following items by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 is Not Important and 5 Very Important).

Level of importance:		Not Important	Less important	Neutral	Important	Very important
1.	Mission statements	1	2	3	4	5
2.	Strategic planning	1	2	3	4	5
3.	Measurable objectives	1	2	3	4	5
4.	Communication of mission and objectives	1	2	3	4	5
5.	Regular reviews of plans	1	2	3	4	5

7. Does your organisation conduct formal review on the planning?

☐ Yes ☐ No

8. If **YES**, who has the principal responsibility in undertaking the review in your organisation?

☐ Chairman/CEO
☐ Head of Division/Dept/Managers
☐ Finance Director/Accountant
☐ Internal Auditors
☐ Advisory Boards
☐ Others (please specify):_________________
____

9. Please indicate the level of importance that your organisation attaches to the following items regarding the implementation process of plans. Please circle the appropriate box based on the scale from 1 to 5 (where 1 means Not Important and 5 Very Important).

Level of importance:		Not Important	Less important	Neutral	Important	Very important
1.	Organise plans into actionable policies	1	2	3	4	5
2.	Defining roles and responsibilities	1	2	3	4	5
3.	Communicating the plans	1	2	3	4	5
4.	Feed-backs and follow-ups systems	1	2	3	4	5
5.	Top management support	1	2	3	4	5
6.	Others (please specify):_____________	1	2	3	4	5

10. Does your organisation have follow-up policy in ensuring the accomplishment of objectives for the following activities?

	YES	**NO**
Operational activities	☐	☐
Capital investment	☐	☐
Waqf activities	☐	☐

11. Please indicate the importance of strategic planning on the operational effectiveness of waqf administration in your organisation by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 is Not Important and 5 Very Important).

Level of importance:		Not Important	Less important	Neutral	Important	Very important
1.	Prioritising the use of waqf resources	1	2	3	4	5
2.	Allocating waqf resources effectively	1	2	3	4	5
3.	Providing a performance measurement tool	1	2	3	4	5
4.	Aligning all efforts towards waqf objectives	1	2	3	4	5
5.	Improving the effectiveness in waqf deliveries to beneficiaries and the public	1	2	3	4	5

D. Budget Preparation and Control

1. Does your organisation prepare the following budgets as part of the operational planning?

	YES	**NO**
Revenue Budget	☐	☐
Expenditure Budget	☐	☐
Capital Budget	☐	☐

2. Please indicate which (if any) of the following types of budget preparation culture is practiced in your organisation:

☐ Bottom-up

☐ Neither bottom-up nor top-down

☐ Top-down

3. Please indicate the level of participation of the following parties in the budget preparation of your organisation by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 means No Participation and 5 is Full Participation):

Level of participation:		No	Partial	Neutral	Sub-stantial	Full
1.	Chairman/CEO	1	2	3	4	5
2.	Members of Council	1	2	3	4	5
3.	State Treasury	1	2	3	4	5
4.	Federal Treasury	1	2	3	4	5
5.	Finance Director/Accountant	1	2	3	4	5
6.	Head of Division/Dept/Managers	1	2	3	4	5
7.	External Consultants	1	2	3	4	5
8.	Internal Auditor	1	2	3	4	5
9.	Budget Committee	1	2	3	4	5
10.	Others (please state): _______________	1	2	3	4	5

4. Please indicate who has the final say in the budget allocation within your organisation?

☐ Chairman/CEO ☐ Members of Council

☐ Treasury ☐ Finance Director/Accountant

☐ Budget Committee ☐ Others (please state): _______________
____

5. Does your organisation have a formal routine of reviewing budgets?

☐ Yes ☐ No

6. If **Yes**, please indicate the frequency of the review:

☐ Daily ☐ Weekly

☐ Monthly ☐ Quarterly

☐ Half-yearly ☐ Yearly

7. Please indicate (if any) the frequency of budget shortages (actual expenditure is more than budgeted expenditure):

☐ Never ☐ Often

☐ Seldom ☐ Very Often

☐ Fair

8. By what method is information on the actual expenditure reported in your organisation?

☐ On-line access

☐ Hard-copy computer printouts

☐ Others (Please specify):______________________

9. If the information is reported by hard-copy printouts, how frequent is this issued?

☐ Weekly ☐ Monthly

☐ Quarterly ☐ Half-yearly

☐ Yearly ☐ Upon request

10. Please indicate the level of participation of the following parties in the budget monitoring of your organisation by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 means No Participation and 5 is Full Participation):

Level of participation:		No	Partial	Neutral	Sub-stantial	Full
1.	Chairman/CEO	1	2	3	4	5
2.	Members of Council	1	2	3	4	5
3.	State Treasury	1	2	3	4	5
4.	Federal Treasury	1	2	3	4	5
5.	Finance Director/Accountant	1	2	3	4	5
6.	Head of Division/Dept/Managers	1	2	3	4	5
7.	External Consultants	1	2	3	4	5
8.	Internal Auditor	1	2	3	4	5
9.	Budget Committee	1	2	3	4	5
10.	Others (please state):_____________	1	2	3	4	5

11. Please indicate the importance of budgets that your organisation attaches by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 is Not Important and 5 Very Important).

Level of importance:		Not Important	Less important	Neutral	Important	Very important
1.	Planning tool	1	2	3	4	5
2.	Motivation tool	1	2	3	4	5
3.	Co-ordination tool	1	2	3	4	5
4.	Performance Measurement tool	1	2	3	4	5
5.	Control mechanism	1	2	3	4	5
6.	Communication tool	1	2	3	4	5
7.	Others: _________________________	1	2	3	4	5

12. Please indicate your agreement on the importance of the current budgetary practice on the operational effectiveness of waqf administration in your organisation by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 is Strongly Disagree and 5 is Strongly Agree):

The importance of the current budgetary practice on the waqf administration:		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Improve the long-term planning of waqf activities	1	2	3	4	5
2.	Improve the operational planning of waqf activities	1	2	3	4	5
3.	Allocate waqf resources effectively	1	2	3	4	5
4.	Increase the awareness on the concept of Value for Money	1	2	3	4	5
5.	Place a greater responsibility of control on waqf resources	1	2	3	4	5
6.	Improve the effectiveness in waqf deliveries to beneficiaries and the public	1	2	3	4	5
7.	Provide a performance evaluation tool for waqf administration	1	2	3	4	5
8.	Others: (please specify) _________________________________	1	2	3	4	5

E. Performance Measurement

1. Does your organisation implement any kind of performance measurement?

☐ Yes ☐ No

If your answer is YES, please answer the following questions:

2. Who are the parties (if any) involved in setting performance indicators? (*Please tick all boxes that are relevant*):

☐ Chairman/CEO
☐ Head of Division/Dept/Managers
☐ Members of Council
☐ External consultants
☐ Finance Director/Accountant
☐ No party is consulted

3. Please indicate the type of performance indicators commonly used in your organisation:

☐ Financial
☐ Non-financial

4. Who has the principal responsibility for monitoring your organisation's overall performance?

☐ Chairman/CEO
☐ Internal Auditors
☐ Finance Director/Accountant
☐ External consultants
☐ Head of Division/Dept/Managers
☐ Others: ______________________

5. How frequent are performance targets being reviewed in your organisation?

☐ Weekly
☐ Monthly
☐ Quarterly
☐ Yearly
☐ Others: ___________________________________

6. Please indicate the level of importance that your organisation attaches to a budget as a performance measurement tool:

☐ Not important
☐ Less important
☐ Important
☐ Very important
☐ Neutral

7. Please indicate the frequency of reporting performance information in your organisation by placing a circle in the appropriate box based on the scale from 1 to 5 where 1 is None and 5 is Most Often:

Frequency of reporting performance information:		None	Seldom	Fair	Often	Most Often
1.	Website	1	2	3	4	5
2.	Annual Statements	1	2	3	4	5
3.	Internal Circularisation	1	2	3	4	5
4.	Management Reports	1	2	3	4	5
5.	Ceremonies/Events	1	2	3	4	5
6.	Mass media	1	2	3	4	5
7.	Others: (please specify): ________________________________	1	2	3	4	5

F. Financial Reporting Practices

1. Please indicate which of the following constitutes the Annual Statement of your organisation:
   (*Please tick all boxes that are relevant*)

   ☐ Receipt and Payments Account ☐ Income and Expenditure Account

   ☐ Cash Flow Statement ☐ Balance Sheet

   ☐ Notes to the accounts ☐ Statement of Assets and Liabilities

   ☐ Other (please specify): ______________________________________

2. Does the Annual Statement comprise a statement that distinctively discloses all revenues and expenditures for each class of fund?

   ☐ Yes ☐ No

3. Does the Annual Statement incorporate written explanation of activities that your organisation had in the reporting year?

   ☐ Yes ☐ No

4. Does the Annual Statement incorporate written explanation of activities and plans for the future?

   ☐ Yes ☐ No

5. Does the Annual Statement disclose separately the assets and liabilities that relate to waqf?

   ☐ Yes ☐ No

6. Apart from the Annual Statement, please indicate the medium for reporting for each of the following item in your organisation by placing a tick in the appropriate box below. (*You may tick more than one box where appropriate to your organisation)*:

Medium of reporting for:		Circulari-sation	Mgt. Report	Website	Ceremonies /events	Mass media
1.	Revenues					
2.	Expenditures					
3.	Cash Flows					
4.	Assets					
5.	Liabilities					

7. Please indicate the extent to which you rely on government financial management regulations/guidelines in preparing financial statements by placing a circle in the appropriate box based on the scale from 1 to 5 (where 1 is Not Significant and 5 is Very Significant).

		Not Significant	Less Significant	Fair	Significant	Very Significant
1.	Treasury Instructions	1	2	3	4	5
2.	Statutory Bodies Act 1980	1	2	3	4	5
3.	Government Accounting Standards	1	2	3	4	5
4.	Financial Reporting Standards by MASB*	1	2	3	4	5
5.	Waqf Accounting Guidelines by JAWHAR	1	2	3	4	5
6.	Internal Accounting Guidelines	1	2	3	4	5
7.	Others (please specify):________________	1	2	3	4	5

Note: * *MASB - Malaysian Accounting Standard Board*

8. Please indicate the frequency of reporting the following financial statements in your organisations if applicable by circling the appropriate scale:

Frequency of reporting for:		Monthly	Quarterly	Half-yearly	Yearly
1.	Receipts and Payments Accounts	1	2	3	4
2.	Income and Expenditure Accounts	1	2	3	4
3.	Balance Sheets	1	2	3	4
4.	Cash Flow Statements	1	2	3	4
5.	Statement of Assets and Liabilities	1	2	3	4
6.	Statements of changes in the funds	1	2	3	4
7.	Others (please specify): _________________	1	2	3	4

9. Does your organisation maintain separate accounts/statements/memorandum to record financial transactions related to waqf?

☐ Yes ☐ No

10. If **Yes**, please indicate which of the followings are maintained by your organisation to record financial transactions related to waqf?

- [ ] Receipts and Payments Account
- [ ] Balance Sheets
- [ ] Statement of Financial Activities
- [ ] Statement of Assets and Liabilities
- [ ] Cash Flow Statements
- [ ] Statements of changes in the funds
- [ ] Other (please specify): ____________________________________

Question 11 and 12 are designed to obtain specific information on the acceptance and potential impact of Waqf Accounting and Management Manual.

In 2007, JAWHAR has issued a guideline for the accounting and reporting of financial transactions related to waqf known as the Waqf Accounting and Management Manual. The main aim of this manual is to promote standardised procedures in the accounting and reporting of financial transactions related to waqf in SIRCs and related agencies.

11. Please indicate the extent to which your organisation has adopted the Waqf Accounting and Management Manual in recording and reporting financial transactions related to waqf:

- [ ] Fully adopt
- [ ] Partially adopt
- [ ] Substantially adopt
- [ ] Never adopt
- [ ] Potentially adopt in the future

12. Please indicate your opinion on the extent of the Waqf Accounting and Management Manual has on the reporting procedures of financial information related to waqf in SIRCs and related agencies by placing a circle in the appropriate box based on the scale from 1 to 5 where 1 is Strongly Disagree and 5 Strongly Agree:

Level of agreement on the Waqf Accounting and Management Manual:		Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1.	Improve the quality of financial information related to waqf.	1	2	3	4	5
2.	Improve the extent of disclosure of financial information related to waqf.	1	2	3	4	5
3.	Improve the reporting structure of financial information related to waqf.	1	2	3	4	5
4.	Improve the process of accountability in waqf administration.	1	2	3	4	5
5.	Others (please state): ________________________	1	2	3	4	5

G. The Use of External Consultants

1. Please indicate the extent to which your organisation has made use of external consultants in the following areas by circling the appropriate number:

The level of usage:		Non usage	Partial usage	Complete usage
1.	Development of accounting system	1	2	3
2.	Development of performance measurement system	1	2	3
3.	Development of E-government	1	2	3
7.	Staff management	1	2	3
8.	Organisational reviews	1	2	3
9.	Others (please state): ___________________	1	2	3

H. Background Information (respondent)

Position/Designation: ____

Length of service in SIRC/related agency: ____________________________

Would you like to receive a summary of the final results?

☐ Yes ☐ No

If **Yes**, please state your contact details:

Email: ____________________
Telephone No: ____________________
Facsimile No: ____________________

THANK YOU FOR YOUR TIME AND COOPERATION