

A Case Study on *Waqf* Reporting Practices for Governance, Performance and Socio-Economic Impact in Malaysia

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Abstract

The aim of this study is to examine the current *waqf* reporting practices in selected *waqf* institution in Malaysia. For this, the study employs a case study method to analyze intervention of life events which is the *waqf* reporting practices itself. A focus group discussion method was adopted to collect data from the respondents. For reporting purposes, this study adopted a single-case study method. Findings are analyzed and discussed are been made on current *waqf* reporting practices under three aspects: (i) *waqf* governance reporting practices; (ii) *waqf* performance reporting practices; and (iii) *waqf* socio-economic impact reporting practices. Based on results, the study highlights a number of good *waqf* reporting practices by selected *waqf* institution in Malaysia. However, this study also identified several *waqf* reporting weaknesses that led for a room of improvement in the future. For that, recommendations to overcome such *waqf* reporting weaknesses on governance, performance and socio-economic impact aspects are being made based on the findings.

Keywords: *Waqf*, *Waqf* reporting, *Waqf* governance, *Waqf* Performance, *Waqf* socio-economic impact.

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Introduction

The development of *waqf* institutions is consistent with the requirements of *maqasid shariah*. Ibn 'Ashur has defined *maqasid shariah* as the meaning and secrets that can be understood from the Islamic *shariah* in the whole or part of the *shariah* process (Rahman,

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2015). It can be categorized into three viz which are: (i) necessities (*dharuriyyat*); (ii) convenience (*hajiyyat*); and (iii) refinement (*tahsiniyyat*). There are five elements under necessities (*dharuriyyat*) consisting of religion, life, mind, offspring and wealth. Laldin et al. (2012) had discussed *maqasid shariah* in *waqf* context whereby it is under the protection of wealth (*hifz al-mal*). Muslims need to preserve, maintain and manage the economic and financial development parallel with *shariah* law including *waqf* management.

The *hujjah* of *waqf* are to address ignorance, poverty, ill-health and creation of wealth. *Waqf* has demonstrated remarkable records as shown in historical developments in addressing the prevailing problems at that time. *Waqf* institutions had played a major role in providing social goods such as education and health, public goods (roads, bridges and national security), helping the poor, orphans and the needy, built commercial businesses, utilities (water and sanitation), infrastructure for religious services (building and maintenance of mosques and graveyards), creating employment, supporting agricultural and industrial sector without imposing any cost to the government (Mohsin, 2008).

Learning from the successes of the past, it is believed that *waqf* has great potential in solving the problems facing the *ummah* today. *Waqf* has a built-in dynamism to contribute to the socioeconomic development of the *ummah*. The dynamism of *waqf* is inherent in its basic characteristics viz. permanence and inalienability. All the schools of *shariah* have stressed the importance of the creation of a *waqf* which had played an important role in ameliorating poverty and in furthering learning in the past and it is expected to play its role in the future provided this institution is reactivated and its management is placed on the sound footing (Kahf, 2003). Besides, *waqf* is one of the mechanisms for wealth creation and distribution developed based on Islamic teachings and principles.

However, to date, as elsewhere, in Malaysia there has been an increased public interest in *waqf* institutions transparency, particularly concerning their outcome, impact, effectiveness and efficiencies. The public has continued to demand the best standard of services and greater transparency. Besides, a number of recent cases on Islamic faith-based institutions in Malaysia were reported in the local media that give a big question especially on the accountability of Islamic faith-based institutions including *waqf* institution. This includes such as 39 reports on manipulation and misappropriates use of public funds during flood crises in 2015 received by Malaysia Anti-Corruption Commission (MACC) (*Astro Awani*, 2015). Moreover, there are allegation and negative perception regarding the spending method, which became one of the factors for the cancellation of contributions by 32,934 regular donors to Yayasan Pembangunan Ekonomi Islam Malaysia (YAPIEM), an Islamic organisation in Malaysia from February 2015 until February 2016 (Teng, 2016). Moreover, there are many Islamic non-profit organisations that focuses on humanitarian aids including the one who are based in Malaysia accused of being involved in terrorism financing (Kamaruddin, 2016; Othman & Ameer, 2014). Last but not least, an arrestment of Islamic non-profit organisation's top management for embezzlement issue (Hassan, 2017).

In order to respond to the public interest, there is a need to examine including on current governance, performance reporting practices by these Islamic faith-institutions in

Malaysia. Specifically, this study aims to study on *waqf* reporting practices concerning on governance, performance and socio-economic impact. In the next section, *waqf* reporting for governance, performance and socio-economic impact are discussed. The following section discusses the method used to select *waqf* institution in Malaysia and also the background of the selected *waqf* institution. Later, this study explains the current *waqf* reporting practices concerning on governance, performance and socio-economic impact. In the final section, several recommendations for improvements in *waqf* reporting practices in the future are discussed. Future research in this area is found at the end of this section.

Literature Review

It is undeniable that reporting for *waqf* is still weak among *waqf* institutions especially in Malaysia. Besides, scholars and practitioners are still continuously debating the proper and suitable measurement that should be used in order to evaluate *waqf* institutions in Malaysia. However, it is not an easy task to define, conceptualizing and measuring particularly for *waqf* projects and activities (Arshad & Zain, 2017). This is due to the complexity of the measurement as non-profit organization including *waqf* institution focus and emphasize on achieving their missions which the accomplishments are difficult to measure (Epstein & McFarlan, 2011).

Moreover, previous studies on *waqf* reporting show that there was no specific guideline in maintaining *waqf* report, and there was no explanation of what kind of information should be provided by a *waqf* institution (Ihsan, 2007; Adnan & Ihsan, 2009; Nahar & Yacoob, 2011). Furthermore, general accounting standards such as International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), and even Islamic reporting standard such as *Financial Accounting Standard (FAS)* issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and local Islamic reporting standards such as *Financial Reporting for Islamic Banking Institutions (FRIBI)* issued by Bank Negara Malaysia (BNM) and *Technical Release (TRi-3): Presentation of Financial Statements of Islamic Financial Institutions* issued by Malaysian Accounting Standard Board (MASB) are not wholly appropriate especially for *waqf* reporting. Hence, depending solely on current accounting and reporting standards for *waqf* reporting is proven to be problematic as it leads to measure the performance based on financial numbers which are insufficient for *waqf* institutions (Nahar & Yacoob, 2011).

Therefore, there is a need for more comprehensive *waqf* reporting to ensure financial and other information are communicated to the *waqf* stakeholders' in an effective and transparent manner. Information disclosed are what the stakeholders' desire rather than what *mutawalli* (*waqf* manager) want to disclose. In order to remain relevant and trusted, non-profit organization including *waqf* institution need to have capabilities in evaluating and measuring their own performance (Medina-Borja & Triantis 2006). This is due to positive relationship between fundraising activities with performance and impact including *waqf* (Said et al., 2013; Sulaiman et al., 2008; Siciliano, 1996).

Waqf governance reporting is vital to promote the level of transparency and accountability that is important for a sector reliant on the confidence and trust of its stakeholders. *Waqf*, as other players in the non-profit sector, survives on self-regulation and, with minimal or even without external oversight. Compared with for-profit entities who are obliged to produce financial reports compliant with international financial reporting standards, non-profits are exposed to 'minimal' regulation and 'under-developed' financial reporting requirements (Cordery & Baskerville, 2007).

Conceptually, Ihsan and Ayedh (2015) studied *waqf* governance structure to promote *waqf* managers accountability when managing *waqf*. They examined governance and accountability in *waqf* by: (i) reviewing the discussion on governance and accountability in *waqf* institution; and (ii) examining the *tawhid* theoretical underpinnings relating to Islamic accountability and governance that builds up upon the concept of (one of God), *amanah* (accountability), *adalah* (fairness), and *syura* (collective/consultative decision-making). Their study on *waqf* governance is exploratory and conceptual in nature, which is deficient of the discussion on *waqf* governance and performance mechanisms.

In this case, several factors are identified as crucial elements in governance reporting including for *waqf*. This include such as board background and composition, systems, procedures, objectives and goals (Yasmin & Haniffa, 2017). For instance, board composition such as board size, board professionalisms and also board members with political connection significantly affects accountability for *waqf* institutions (Brennan & Solomon, 2008; Arshad et al., 2012). Moreover, limited financial management background among board also make them difficult to understand and improve organisation's financial performance (Siciliano, 1996). In addition, number of meetings by board members also influenced decision making quality as time taken expended by board members to reach good financial decision making (Scholten et al., 2007).

Besides, establishment of codes of conduct is also related with good governance practices in *waqf* institutions. By complying with codes of conduct set by *waqf* institution (self-regulation), it will increase stakeholders' trusts and confidants as *waqf* is managed accordingly and not been misused (Lee, 2004; Lloyd, 2005). In addition, standards and guidelines in managing *waqf* fund is also believed to give significant impact toward good governance practices by *waqf* institution. Therefore, Table 1 lists proposed governance indicators based on previous studies for the best *waqf* reporting practices.

From Islamic perspective, good governance practices are encouraged. This based on the following hadith narrated by Ibnu Umar which is:

"...Holy Prophet (May be upon him) said: Beware. Every one of you is a shepherd and each one is answerable with regard to his flock. The Caliph is a shepherd over the people and shall be questioned about his subjects (as to how he conducted their affairs). A man is a guardian over the members of his family and shall be questioned about them (as to how he looked after their physical and moral well-being). A woman is a guardian over the household of her husband and his children and shall be questioned about them (as to how she managed the household and brought up the children). A slave is a guardian over the property of his master and shall be questioned about it (as to how he safeguarded his

trust). Beware, every one of you is a guardian and every one of you shall be questioned with regard to his trust... ” (Hadith No.4496, Book 20, Sahih Muslim).

Table 1 Governance Indicators for the Best *Waqf* Reporting Practices

No.	<i>Waqf</i> Indicators	Past Studies
1	Roles and responsibilities of the <i>waqf</i> institution	SC (2017); Yasmin & Haniffa (2017)
2	Code of conduct and ethics of the <i>waqf</i> institution	SC (2017)
3	Reporting structure of the <i>waqf</i> institution	Yasmin & Haniffa (2017)
4	Board members’ background of the <i>waqf</i> institution	SC (2017); Abdullah (2015)
5	Board’s nomination, composition and remuneration of the <i>waqf</i> institution	SC (2017); Abdullah (2015)
6	Audit committee report of the <i>waqf</i> institution (including risk management and internal control statements)	SC (2017)
7	Direction and strategic vision of the <i>waqf</i> institution	Noor et al. (2014)
8	Establishment of <i>shariah</i> committee board in <i>waqf</i> institution and <i>shariah</i> committee report	Masruki & Shafii (2013); Noor et al. (2014)
9	Appointment of external auditor and independent auditor report	Noor et al. (2014)

Meanwhile, for *waqf* performance and socio-economic impact reporting, normally there are five reporting elements which are: (i) input; (ii) output; (iii) throughput; (iv) outcome; and (v) impact (Arshad & Zain, 2017; Nordin et al., 2017; Shafii et al., 2014). Inputs consist of all possible elements needed in order to carry out *waqf* institution’s objective through its activities and programs. Evaluation on outputs refers to quantity and quality of products or services delivered. In the throughput stage, the performance evaluation includes both efficiency and effectiveness measures for *waqf* institution. Evaluation on outcomes relates to results of non-profits organisations that are linked to its objectives. Lastly, evaluation at impact stage is an evaluation on the consequences of organization’s activities toward community targeted.

In addition, the result of inputs and outputs are referred to as the efficiency of *waqf* institution, while the result in evaluating throughputs, outcomes and impacts are referred as the effectiveness of *waqf* institution (Medina-Borja & Triantis, 2006). Efficiency of *waqf* institution is measured on how economically all resources are utilised in providing social and economic contributions. Meanwhile, effectiveness of *waqf* institution is measured on to what extent each *waqf* institution’s objective and goal is achieved (Beamon & Balcik, 2008).

To measure such effectiveness and efficiency in *waqf* institution, performance measurement for both financial and non-financial indicators can be used (Arshad & Zain, 2017; Shafii et al., 2014). Unless performance measures are in place, it will be difficult for non-profit organization including *waqf* institution to answer on criticisms on ineffectiveness and lack of impact (Connolly & Kelly, 2011). Therefore, Table 2 and

Table 3 lists proposed both financial and non-financial performance indicators for the best *waqf* reporting practices.

Table 2 Financial Performance Indicators for the Best *Waqf* Reporting Practices

No	Ratios	Description	Indication	Literature
1	Program Efficiency	Programme expenses to total expenses.	Recommended ratio is 65%. Low ratio indicates that fewer beneficiaries receive the assistance or the total expenses are much too high. Higher ratio indicates that more expenses are disbursed to run programs.	Sulaiman et al. (2009); Shafii et al. (2014)
2	Cash Availability	Cash and bank balances to total assets.	Indicate the amount of idle cash and bank balances. The higher the ratio tells that the organization maintain high amount of idle cash.	Shafii et al. (2014)
3	Return of Investment	Investment income to average investment.	Indicate the return of investment on <i>waqf</i> assets.	Sulaiman et al. (2009)
4	Fundraising Efficiency	Total fundraising expenses to total funds raised.	Indicate the extent to which the organization is able to generate surplus from the donation.	Sulaiman et al. (2009); Shafii et al. (2014)
5	Operating Income	Core income to expenses.	Indicate the extent to which the income generated from core activities.	Shafii et al. (2014)
6	Objective Achieved Index	Disbursement (output) to proceeds (input).	Indicate the degree of achievement that <i>mutawalli</i> has fulfilled <i>waqif</i> designated objectives. If the ratio is closer to one, this indicates that there is a balance between disbursement and proceeds.	Hossein Pirasteh (2011)
7	Expected Income Achieved Index	The balance remaining for the year to total earning.	Indicate better income acquisition if the ratio is close to one.	Hossein Pirasteh (2011)
8	Equity Balances	Ratio of equity to revenue.	Indicate financial sustainability if the ratio is high.	Sulaiman & Zakari (2015)

No	Ratios	Description	Indication	Literature
9	Revenue Concentration	Square of the percentage share that each revenue source represents of the total revenue.	Indicate that organization has equal revenue from diverse sources if each ratio is close to zero. Revenue that has ratio close to one show that it is dependent on one single source of income which is not healthy to the organization.	Sulaiman & Zakari (2015)
10	Administrative Efficiency	Ratio of administrative costs as a percentage of total costs.	Determine the ability of the organization to control expenditure and impact of the control on service delivery.	Shafii et al. (2014); Sulaiman & Zakari (2015)
11	Operating Margin	Net income (or loss) divided by total revenue.	Indicate the organization is financially stable if the ratio is high.	Sulaiman & Zakari (2015)
12	Income Growth	Income year n - Income year (n-1) divided by Income year (n-1).	Indicate the extent to which the organization is able to generate income from its activities from time to time.	Shafii et al. (2014)

Source: Arshad and Zain (2017)

From Islamic perspective, performance evaluation is encouraged. This is based on the following verse which is:

“Say: Consider what is it that is in the heavens and the earth; and signs and warners do not avail a people who would not believe” (Yunus, 10:101).

Based on the above verse, Islamic encourages people or organisations to evaluate every activity in this world including *waqf* matters. This is to ensure that Muslims are learning and understanding on how each thing in this world is created and function. In this case, suitable performance measurements are used to evaluate *waqf* projects and activities in order to understand its impact on both social and economic. This is based on the following verses:

“And give full measure when you measure out, and weigh with a true balance; this is fair and better in the end” (Al-Isra’ 17:35).

“Surely We have created everything according to a measure” (Al-Qamar 54:49).

Table 3 Non-Financial Performance Indicators for the Best *Waqf* Reporting Practices

Inputs <i>What goes in</i>	Activities <i>What happens</i>	Outputs <i>What results (immediate)</i>	Outcomes <i>What results (medium and long-term)</i>	Impacts <i>What results (effects on root causes; sustained significant change)</i>
Cash	Delivery of basic needs (e.g. foods, shelter and medical supplies).	People fed, treated and sheltered.	Improved living standard, health etc.	Constant declines in poverty.
Real Property	Construction of mosque, cemetery, road and hospital.	Infrastructure and hospitality built.	Increased income	Islam is widespread around the world.
Equipment and Supplies	Provision of micro finance.	People trained and educated.	Expansion of Muslim community.	Strong Muslim brotherhood.
Knowledge (Modern and Islamic)	Sponsoring disabled, orphans and refugees.	Micro enterprises formed.		Fair income distribution (reduced gap between rich and poor).
Technical Expertise	Awarding scholarship and research. Disaster and accident relief. Conducting training and educational programs. Sponsoring religious activities (<i>da'wah</i> , Islamic forum etc.).	Religious activities held.		Significant changes in social norms and attributes (social justice, freedom, governance, transparency etc). Achieving objectives of Islamic economic system.

Source: Nordin et al. (2017)

Research Methodology

The main aim of this research is to explore current *waqf* reporting practices by a *waqf* institution in Malaysia. For the purpose of this study, one particular *waqf* institution in Malaysia was investigated - *Waqf* Institution A. Although there are other *waqf* institutions in Malaysia, this study however decided only to examine *waqf* reporting practices in *Waqf* Institution A due to several reasons. First, *Waqf* Institution A is well established as compared to other *waqf* institutions in Malaysia. Second, *Waqf* Institution A is among few *waqf* institutions in Malaysia that manages more than RM 500 million of *waqf* assets. Thus, it is significant to be investigated. Third, *Waqf* Institution A is offering various *waqf* programs and activities, which give larger impact toward beneficiaries as compared to other *waqf* institutions in Malaysia.

This study used a case study method to explore current *waqf* management practices in *Waqf* Institution A. This is because case study was recognized as the best method for exploring a specific system practiced in an organization (Yin, 2014). Specifically, this study employed exploratory case study as suggested by Baxter and Jack (2008), which to find an answer regarding real life interventions that were too complex to be studied by surveys or experimental strategies.

In order to formulate the *waqf* reporting on performance and socio-economic impacts for *Waqf* Institution A, three individuals were interviewed in a focus group discussion session. The Head of the Finance Department of *Waqf* Institution A was interviewed to gather information about current *waqf* reporting practices by *Waqf* Institution A. Meanwhile, a *waqf* officer under the Marketing and *Da'wah* Department of *Waqf* Institution A was interviewed to gather information about the issues due to limited information on current *waqf* reporting practices. Last but not least, the Head of Internal Audit Unit of *Waqf* Institution A was also interviewed in order to gather information about how performance and impact on *waqf* programs and activities conducted are evaluated. The interview sessions were conducted on November 2017. Besides, this study also used comprehensive literature reviews on both academic and non-academic documents. This includes previous studies on *waqf* reporting practices, *waqf* annual reports and websites in order to gather adequate information on *waqf* reporting practices concerning governance, performance and socio-economic impact.

For reporting purposes, this study employs a single-case study. This approach is used to describe and analyze the case research of *waqf* management practices by *Waqf* Institution A in single writing (Yin, 2014). This approach provides an in-depth understanding especially on the *waqf* reporting practices under the single writing. For this purpose, findings on *waqf* reporting practices are divided into three sub-topic discussions, which are: (i) *waqf* governance reporting; (ii) *waqf* performance reporting; and (iii) *waqf* socio-economic impact reporting practices.

Waqf Institution A

Waqf Institution A was established from the consent of the State Ruler on 11th January 2011 and was gazetted on 3rd February 2011. Previously on 30th October 2009, the State

Ruler has ordered the State Islamic Religious Council A (SIRC A) to empower *waqf* administration by establishing a separate *waqf* entity as similar to *zakat* institution. Therefore, a new separate *waqf* entity known as *Waqf* Institution A is established from this order, parallel with the State Enactment that SIRC A is eligible to establish a body that is suitable to administrate and manage activities that serve its *waqf* initiatives.

Waqf Institution A is one of the bodies established to carry specifically on *waqf* objectives by SIRC A which is to administrate *waqf* funds including collection, management, and distribution processes. Specifically, *Waqf* Institution A's roles and functions are as follow:

- Advise the SIRC A with respect to policies, measures, measures to be taken and taken to promote the development of *waqf* properties and products;
- Implementing and affecting any policy, direction or order of the SIRC A in respect of the development of *waqf* properties and products;
- Develop, adopt and implement policies, measures and measures on the development of *waqf* assets and products;
- Acting as a coordinating agency in the rapid implementation of *waqf* property and product development;
- Planning, developing, implementing and promoting the development and implementation of *waqf* assets and products;
- Manage and carry out the operation and maintenance of *waqf* properties including facilities, infrastructure, premises and equipment in the area of *waqf* property; and
- Encourage, coordinate and conduct research and development in all aspects of *waqf* property and products.

Waqf Institution A is led by a chief executive officer (CEO), who is responsible to report to the *Waqf* Institution A's board of directors (BOD). The BOD consists of 11 members from various backgrounds such as accounting, business, religious, legal, architecture and land. The BOD is responsible in governing and implementing all *waqf* projects and activities runs by *Waqf* Institution A. The BOD is also responsible to the *waqf* management collected mainly from public at large. The list of current *Waqf* Institution A's BOD members and their designation are as follow:

1. *Chairman* (Deputy Chairman of SIRC A).
2. *Deputy Chairman* (representative from public listed company – real estate developer company)
3. Board Member (representative from private company – real estate developer company).
4. Board Member (former Director of the State Auditor General).
5. Board Member (State Mufti).
6. Board Member (SIRC A Member).
7. Board Member (Secretary of SIRC A).
8. Board Member (State Legal Advisor).
9. Board Member (representative from private architecture firm).
10. Board Member (Director of the State Land Registry Office).

11. Board Member (CEO of *Waqf* Institution A).

Waqf Institution A has four departments consisting of Finance Department, Administration Department, Marketing and *Da'wah* Department and also Research and Investment Department. In addition, *Waqf* Institution A also has a separate Internal Audit Unit that responsible for internal audit processes. Moreover, although it's headquarter located at the capital state, *Waqf* Institution A also appointed nine *waqf* officers under Marketing and *Da'wah* Department, each *waqf* officer responsible for *waqf* collection in all nine districts in the state.

Normally, *waqf* are categorized into two types which are: (i) *waqf am* (general *waqf*); and (ii) *waqf khas* (specific *waqf*). *Waqf am* is a *waqf* contributed by *waqif* (*waqf* donors) without any specific purpose or intention. Meanwhile, *waqf khas* is a *waqf* contributed by *waqif* with a specific purpose and intention on the usage of *waqf*. Currently, *Waqf* Institution A provides five types of *waqf am* schemes and one *waqf khas* scheme. These *waqf* schemes are as follow:

1. Cash *Waqf* Scheme (*waqf am*) – **this *waqf* scheme is a way of *waqf* through cash. *Waqif* can contribute by buying the share units offered by SIRC A as the sole trustee of a *waqf* property in Selangor and imposing such units indefinitely for Allah SWT with the purpose and interests of Muslims.**
2. Infaq *Waqf* Scheme (*waqf am*) – this *waqf* scheme is a way of *waqf* through salary deductions. The *infaq* scheme was created to facilitate civil and private employees with a monthly salary deduction at a minimum rate of RM 5 and no maximum rate was set.
3. Corporate *Waqf* Scheme (*waqf am*) – this *waqf* scheme is focused for private, corporate and government-owned subsidiaries (GLCs) to appreciate and practice *waqf*. These entities are called to contribute together in the development of *waqf* property through donations given. Besides providing *waqf* instrument as one of the Corporate Social Responsibility (CSR) to Muslims, this corporate scheme will make private and corporate groups as the icon of the Muslims to continue to live the practice of *waqf*.
4. Gold *Waqf* Scheme (*waqf am*) – this *waqf* scheme is a way of *waqf* through gold.
5. Art *Waqf* Scheme (*waqf am*) – this *waqf* scheme is focused on artists such as singers, actors, film directors, painters and composers to contribute on *waqf* programs and activities by using their art work, influence, capabilities and others who related with arts field.
6. *Waqf Khas* Scheme (*waqf khas*) – this *waqf* scheme is varying based on *waqif* intention. Normally, *waqf khas* is highly related with assets such as land and building that being contributed by *waqif* with specific intention. At present, there are about 200 *waqf khas* projects currently in progress under *Waqf* Institution A covering various activities such as development of *waqf* land into religious school, cemetery or mosques.

Current *Waqf* Reporting Practices in *Waqf* Institution A

At present, there is no specific report that discloses information on *waqf* governance, performance and socio-economic impacts by *Waqf* Institution A. However, there are several disclosures on *waqf* projects and activities which can give insight on what basis should be used in order to report *waqf* governance, performance and socio-economic impact from *waqf* projects and activities conducted. The information is scattered and available in both *Waqf* Institution A's website and documents published in the website.

For *waqf* governance reporting, currently there is a number of information on *waqf* governance practices by *Waqf* Institution A. For example, *Waqf* Institution A provides its *waqf* governance information by providing details on its board members at its website. Besides, board members' background also is presented together with the list of the board members. In addition, there is also organizational background information disclosed by *Waqf* Institution A - such as roles and responsibilities, objectives, mission, vision, ethic and motto. Moreover, *Waqf* Institution A also presents its organizational structure at its website.

Furthermore, there is also governance information disclosed by *Waqf* Institution A on its cash *waqf* scheme. *Waqf* Institution A collaborates with an Islamic Bank in Malaysia to manage cash *waqf* scheme fund. For this purpose, a Joint Management Committee (JMC) was established between *Waqf* Institution A and the Islamic Bank to manage *waqf* fund and this committee is monitored by a *Waqf* Council who reports directly to the State Ruler. From governance information disclosed, it is noted that JMC is responsible for channelling collected *waqf* funds for *waqf* projects, helping the *waqf* recipients particularly in the aspect of education and health, and investing a portion of the *waqf* profits. The investment of *waqf* funds has been managed by the Islamic Bank. 25 per cent of investment returns are allocated to *Waqf* Institution A whereas another 75 per cent is given to JMC to be re-allocated to appropriate *waqf* activities/programs. The governance practice of cash *waqf* scheme funds is shown in Figure 1 as follow:

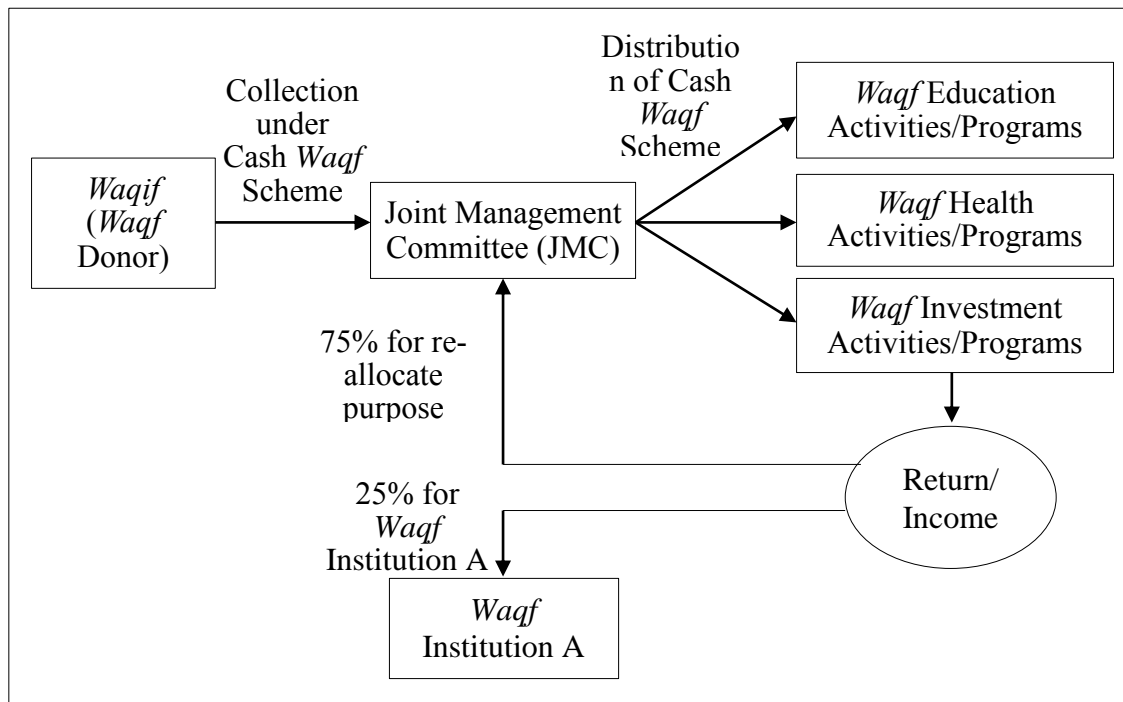


Figure 1 Governance of Cash Waqf Scheme Funds

Meanwhile, for *waqf* performance and socio-economic impact reporting, there is a limited disclosure on both performance and impact reporting. For instance, under cash *waqf* scheme, the latest *waqf* report which is the *Fourth Quarter Report for September – December 2017* disclosed the accumulated cash *waqf* fund as at 31 December 2017 as RM 8.94 million. From this report, a total RM 570,267.49 was collected (October – RM 200,028.45; November – RM 172,735.01; December – RM 197,504.03) and RM 740,568.49 was distributed (*waqf* projects – RM 693,290.00; administration cost – RM 47,278.49). For more detail on cash *waqf* funds, Table 4 below presented summarization of cash *waqf* collection, distribution and accumulated *waqf* funds from each *waqf* report disclosed in *Waqf* Institution A’s website as follow.

Meanwhile, not much information is disclosed on other *waqf* scheme. However, there is a little information on accumulated *waqf* funds as at 30 September 2017 is RM 207 million; consist of *waqf am* (RM 39.1 million), *waqf khas* (RM 164.4 million) and rental income on *waqf* assets (RM 3.5 million). Besides, for *waqf* disbursement as at 30 September 2017, a total RM 140.42 million disbursed consist of construction of eight mosques (RM 98 million), construction of 23 *mushollas* (RM 13.8 million), construction of two religious schools (RM 26.2 million), two libraries/books projects (RM 0.715 million) and other *waqf* projects and activities (RM 1.7 million).

Table 4 Collections, Distributions and Accumulated of Cash *Waqf* Funds

No	<i>Waqf</i> Reports	Fund Collection (RM)	Fund Distribution (RM)		Accumulated Fund(RM)
			<i>Waqf</i> Projects	Administration Cost	
1	6 Months Report (Oct 2012 - Mar 2013)	1,618,543.75	-	-	1,618,543.75
2	2nd Quarter Report (Apr - Jun 2013)	511,502.47	69,270.00	7.50	2,060,768.72
3	3rd Quarter Report (July - Sept 2013)	515,666.01	305,133.80	-	2,271,300.93
4	4th Quarter Report (Oct - Dec 2013)	2,134,633.15	76,000.00	-	4,329,934.08
5	1st Quarter Report (Jan - Mar 2014)	1,437,304.31	80,000.00	-	5,687,238.39
6	2nd Quarter Report (Apr - Jun 2014)	1,036,805.43	594,264.38	10.00	6,129,769.44
7	3rd Quarter Report (Jul - Sept 2014)	1,206,349.74	64,000.00	-	7,119,780.57
8	4th Quarter Report (Oct - Dec 2014)	889,302.20	1,258,174.59	37,079.79	6,829,087.21
9	1st Quarter Report (Jan - Mar 2015)	1,295,379.48	15,160.00	0.50	8,109,306.19
10	2nd Quarter Report (Apr - Jun 2015)	690,634.77	127,800.55	1,475.99	8,670,664.42
11	3rd Quarter Report (Jul - Sept 2015)	947,941.79	176,139.00	4,420.92	9,438,046.29
12	4th Quarter Report (Oct - Dec 2015)	1,293,078.63	862,339.87	17,634.77	9,851,150.28
13	1st Quarter Report (Jan - Mar 2016)	1,447,237.75	910,003.69	2,872.56	10,385,511.78
14	2nd Quarter Report (Apr - Jun 2016)	733,742.35	1,007,162.62	67.31	10,112,024.20
15	3rd Quarter Report (Jul - Sept 2016)	667,065.36	772,993.27	47.17	10,006,049.12
16	4th Quarter Report (Oct - Dec 2016)	673,354.48	884,087.37	4.77	9,795,311.46
17	1st Quarter Report (Jan - Mar 2017)	528,275.20	404,652.25	1,747.48	9,917,186.93
18	2nd Quarter Report (Apr - Jun 2017)	785,637.49	1,484,769.88	15.90	9,218,038.64
19	3rd Quarter Report (Jul - Sept 2017)	513,872.17	622,080.00	1,337.72	9,108,493.09
20	4th Quarter Report (Oct - Dec 2017)	570,267.49	693,290.00	47,278.49	8,938,192.09

<i>Accumulated Cash Waqf Funds as 31 December 2017</i>	19,496,594.02	10,407,321.27	114,000.87	8,938,192.09
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Source: *Waqf* Institution A’s website (2017)

In addition, there is also information on ongoing *waqf khas* projects which is worth about RM 760.56 million in total as at 31 December 2016. These *waqf khas* projects involved 1,351 acres or 1,328 lots of *waqf* land worth about RM 500 million (PWS, 2017). The details on *waqf khas* projects’ valuation and collection as at 31 December 2016 are summarized in the following Table 5:

Table 5 *Waqf Khas* Project’s Valuation and Collection as at 31 December 2016

No	Location (Districts)	<i>Waqf Khas</i> Projects’ Valuation (RM)	<i>Waqf Khas</i> Fund Collection (RM)
1	Petaling	341,468,172.15	33,442,194.85
2	Hulu Langat and Sepang	135,700,000.00	22,893,980.91
3	Klang and Kuala Langat	134,382,403.00	4,783,397.40
4	Sabak Bernam and Kuala Selangor	18,459,250.00	723,231.54
5	Gombak and Hulu Selangor	130,555,002.90	5,928,363.44
	TOTAL	760,564,828.05	67,771,168.14

Source: *Waqf* Institution A’s website (2017)

Currently, a quarterly *waqf* report for cash *waqf* scheme is restricted to the value of *waqf* funds and not on the number of beneficiaries. Therefore, the impact on *waqf* activities/programs/projects conducted under the cash *waqf* scheme is not presented. Besides, *Waqf* Institution A only discloses separation between *waqf khas* and *waqf am* funds in their financial report. There is no specific disclosure based on each *waqf* activity/program/project conducted. In other words, no annual report is prepared thereby making it difficult to determine the impact of *waqf* comprehensively.

Moreover, the amount reported for a *waqf* property is based on historical cost and not on fair value. Therefore, appreciation in value cannot be calculated in order to be recognised as part of the *waqfs*’ growth and impact. Worst, there is no *waqf* reporting on performance and socio-economic impacts although these information are crucially needed by beneficiaries and stakeholders. Therefore, there is a need for *Waqf* Institution A to prepare and report such information concerning on performance and socio-economic impact on *waqf* activities/programs/projects conducted.

Recommendations and Conclusion

It is crucial for *Waqf* Institution A’s management to improve their current *waqf* reporting practices especially for governance, performance and socio-economic impact information. For *waqf* governance reporting, there are still a number of governance indicators yet to be disclosed by *Waqf* Institution A. This include audit committee report (including risk management and internal control statements), establishment of *shariah* committee board and *shariah* committee report and appointment of external auditor and

independent auditor report (Masruki & Shafii, 2013; SC, 2017; Noor et al., 2014; Yasmin & Haniffa, 2017). Besides, *Waqf* Institution A also may refer to *waqf* guideline issued by Securities Commission of Malaysia (SC) (see **Appendix A**) in order to have the best *waqf* governance reporting practices.

Meanwhile, for *waqf* performance reporting, *Waqf* Institution A should adopt all suggested performance measurements by using financial indicators as proposed by Arshad and Zain (2017) and Shafii et al. (2014). There are 12 performance measurements by using financial indicators proposed which are: (i) program efficiency; (ii) cash availability; (iii) return of investment; (iv) fundraising efficiency; (v) operating income; (vi) objective achieved index; (vii) expected income achieved index; (viii) equity balances; (ix) revenue concentration; (x) administrative efficiency; (xi) operating margin; and (xii) income growth.

On the other hand, for *waqf* socio-economic impact reporting, it is suggested for *Waqf* Institution A to disclose all *waqf* activities/programs/projects for all five reporting elements starting from input, output, throughput, outcome and impact (Nordin et al., 2017). In this case, PWS may refer to other existing *waqf* institution practices such as Majlis Ugama Islam Singapore (MUIS), on its *waqf* reporting practices including for disclosure on *waqf* socio-economic impact based on its *waqf* activities/programs/ projects (see **Appendix B**).

This study highlights *waqf* reporting practices on governance, performance and socio-economic impact in *Waqf* Institution A. Based on findings, this study had contributed an in-depth analysis specifically on *waqf* governance reporting, *waqf* performance reporting and *waqf* socio-economic impact reporting practices. Although *Waqf* Institution A can be said to have proper *waqf* reporting practices, there is still room for improvement to adopt best *waqf* reporting practices.

This study has laid the groundwork for several strands for future research. Since this study is based on only one *waqf* institution, it cannot be generalized to all *waqf* institutions in Malaysia. Nevertheless, recommendations for the best *waqf* reporting practices on governance, performance and socio-economic impacts can be adopted and implemented by all *waqf* institutions.

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Appendix A: Waqf Guideline – Securities Commission of Malaysia

Guideline on *waqf* was issued by the SC in 2014. The guideline has set several criteria for retention of a licensed or supervised intermediary to professionally manage *waqf* assets. Such an intermediary must (i) adopt international best practices and standards, (ii) have technical knowledge and resources, (iii) must be subjected to strong governance providing adequate level of investor protection and (iv) must have an established technology infrastructure. The SC has also come up with a range of principles and recommendations to be implemented by the *waqf* institutions. The principles are as follows:

Principle 1: Strengthening the Oversight of Waqf Institutions

Recommendation 1.1: The *waqf* trustee should establish clear roles and responsibilities reserved for them and those delegated to the *waqf* institutions.

Recommendation 1.2: The *waqf* trustee should ensure that the *waqf* institutions are governed by a satisfactory code of conduct.

Recommendation 1.3: The *waqf* trustee should oversee and monitor the business operations and conduct of the *waqf* institutions.

Recommendation 1.4: The *waqf* trustee should be given access to information and advice.

Principle 2: Strengthening the Effectiveness of Waqf Institutions

Recommendation 2.1: The *waqf* institutions should have the necessary expertise to manage *waqf* assets.

Recommendation 2.2: The *waqf* institutions should have a clear strategy in managing *waqf* assets.

Recommendation 2.3: The *waqf* institutions should have in place adequate internal controls, including risk management and internal audit.

Recommendation 2.4: The *waqf* institutions should produce an annual report which is made public.

Principle 3: Strengthening the Engagement with Stakeholders

Recommendation 3.1: The *waqf* institution should continuously engage its stakeholders.

Recommendation 3.2: The *waqf* institution should establish a clear and effective communication policy to manage relationships with its stakeholders.

Performance monitoring of *waqf* management is outlined by Securities Commission in its Recommendation 1.3, which states that the *waqf* trustee should oversee and monitor the business operations and conduct of the *waqf* institutions. The following annotations further clarify the monitoring requirements:

1. The *waqf* trustee, together with its *waqf* institutions, should clearly establish and agree on the objectives in managing the *waqf* assets, including performance target to be met by the *waqf* institutions. Regular review of the *waqf* institutions' performance should be conducted to ensure that the interest of stakeholders is protected and met.
2. The *waqf* trustee should oversee and monitor the performance of its *waqf* institutions and ensure that the *waqf* assets are being properly managed. It should have in place appropriate measures to assess the *waqf* institutions' performance and effectiveness. The obligation to oversee the performance of the *waqf* institutions reflects a collegial relationship that is supportive yet vigilant.
3. In the event a decision is made to distribute the profit, this should be fairly undertaken to preserve the altruistic purpose of *waqf* institutions. The *waqf* trustee and *waqf* institutions are encouraged to agree on a profit sharing arrangement, which should be formalized and made transparent.
4. The profit sharing arrangement should outline the proportions of the returns on investments that will be utilized as:
 - Trustee fee for the *waqf* trustee;
 - Management fee for the *waqf* institutions, where the amount should reflect the extent of responsibilities and expertise of the *waqf* institutions as well as complexity of the activities undertaken by them in managing the *waqf* assets;

- Re-investment; and
- Distribution to beneficiaries, including charitable organizations.

Appendix B: Best *Waqf* Reporting Practices by Majlis Ugama Islam Singapore (MUIS)

Currently MUIS is committed in reporting all projects and activities including *waqf* projects and activities. The *waqf* report is reported together with audited financial statements annually. Based on MUIS annual report from 2011 to 2016, several interesting and advanced reporting practices by MUIS are highlighted as follow:

First, MUIS financial statement for 2011-2015 is audited by PwC, while MUIS financial statement for 2016 is audited by EY. This happened due to audit rotation practice every 5 to 7 years as per the Singapore Auditor General's Office requirement.

Second, MUIS has a different set of financial statements specifically on *zakat fitrah*, *zakat* and *waqf* in its annual report. Compared to selected *waqf* institutions in Malaysia, their financial statements are consolidated for all types of Muslim wealth which are *zakat*, *waqf* and *mal*.

Third, MUIS has published its 2016 annual report on its website in line with public accountability paradigm. Compared to MUIS, the two selected *waqf* institutions in Malaysia have yet to publish their 2016 annual reports.

Fourth, the external audit process has been conducted for each *waqf* fund project under MUIS individually. Also, those *waqf* projects that are not audited during the financial year is listed accordingly in the notes.

Fifth, by having a list of *waqf* beneficiaries such as NGOs, mosques and volunteers in its annual report, MUIS provides a clear description of the *waqf's* impact on the beneficiaries.

Sixth, each MUIS *waqf* project is explained and disclosed thoroughly in the notes to the account, in particular on the:

- Income Statement: Income, expenditure, provision to beneficiaries, gain/loss on fair value of *waqf* properties/investment and accumulated *waqf* funds.
- Balance Sheet: Capital, fair value, accumulated funds, non-current assets, current assets, current liabilities, non-current liabilities.

Last but not least, MUIS discloses its *waqf* socio-economic impact thoroughly by presenting a detailed summary of facts and figures in their annual report. Summary of the *waqf* socio-economic impacts disclosed in MUIS annual report for year 2014-2016 is tabled in the following Table 6:

Table 6 Summary of *Waqf* Outcomes and Impacts Disclosed in MUIS Annual Report

Projects	Measurements/Impacts
Enhancing the Community's Religious Life – Adult Islamic Learning (ADIL) Program.	<ul style="list-style-type: none"> No. of mosques offering ADIL program. No. of classes offering ADIL program.
Strengthening Madrasah Education.	<ul style="list-style-type: none"> Professional development hours provided. Hours of weekly lesson plan discussions conducted. No. of teachers completed the Understanding by Design (UBD) training. No. of teachers identified to be UBD pioneers.
Supporting <i>Asatizah</i> Development.	<ul style="list-style-type: none"> <i>Asatizah</i> registered on <i>Asatizah</i> Recognition Scheme (ARS). Hours of training.
Strengthening Religious Resilience Via Quality Islamic Education.	<ul style="list-style-type: none"> ADIL enrolment – increase in registration percentage. Percentage of ADIL module satisfaction – enrich and relevant.
Islamic Education for the Young.	<ul style="list-style-type: none"> Young involved during the year.
Assistance for Low Income Families.	<ul style="list-style-type: none"> No. of families assisted. <i>Waqf</i> spent for poor and needy families.
Social Trust & Community Engagement – Harmony Centre.	<ul style="list-style-type: none"> No. of visitors hosted during the year. Percentage of non-Muslim visitors during the year. Percentage of Muslim visitors during the year.
Fostering a Culture of Blessings to All – F.A.I.T.H Project.	<ul style="list-style-type: none"> No. of refugees benefited. No. of backyard vegetable gardens growth. No. of relief pack provided to refugees.
Service Beyond Our Community – Lets Share a Meal Program (LSMP).	<ul style="list-style-type: none"> No. of residents received LSMP. No. of volunteers involved with LSMP.
Our Mosques – More Prayer Space Added.	<ul style="list-style-type: none"> No. of new mosque built. No. of prayer space (in capacity) added during the year.
Asset Development – <i>Waqf</i> Education Fund (<i>Waqf Ilmu</i>).	<ul style="list-style-type: none"> No. of <i>waqf</i> fund raised from public. No. of investment return from <i>waqf</i> fund during the year. No. of fund distributed toward beneficiaries during the year.

Source: MUIS Annual Report 2014-2016