Intellectual Discourse

CONTENTS

Book Reviews

Research Note

Conference Report

Waqf Institutions in Malaysia: Appreciation of *Wasaṭiyyah* Approach in Internal Control as a Part of Good Governance

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Abstract: Good governance is important for the sustainability of Waqf institutions in Malaysia. As a part of good governance, the evaluation of internal control and its components are essential to be considered. While reaching the Maqāṣid al-Sharī'ah (the objectives of the Lawgiver), the appreciation of Wasaṭiyyah approach can be utilised in the evaluation of internal control in the Waqf institutions. Based on qualitative research method, this research explores the internal control and its components in Waqf institutions. The conceptual study on Wasaṭiyyah approach is provided in brief, and the appreciation of Wasaṭiyyah approach in relation to internal control and its components are provided. It is found that Wasaṭiyyah approach can be used in the evaluation of internal control of Waqf institutions in improving their good governance.

Keywords: Good governance, *Wasaṭiyyah*, *Waqf institutions,* internal control, and Malaysia.

Abstrak: Tadbir urus yang baik adalah penting untuk kelestarian institusi *Waqf* di Malaysia. Sebagai sebahagian daripada tadbir urus yang baik, penilaian

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kawalan dalaman dan komponennya penting untuk dipertimbangkan. Bagi mencapai Maqāsid al-Sharī'ah, penghargaan terhadap pendekatan *Wasaṭiyyah* seharusnya dihayati dalam penilaian kawalan dalaman dalam institusi *Waqf*. Berdasarkan kaedah penyelidikan kualitatif, penyelidikan ini menghuraikan kawalan dalaman dan komponennya dalam institusi *Waqf*. Kajian konseptual mengenai pendekatan Wasaṭiyyah ini disediakan secara ringkas, dan penghargaan terhadap pendekatan *Wasaṭiyyah* berkaitan dengan pengendalian secara kawalan dalaman dan komponennya adalah disediakan. Adalah didapati bahawa pendekatan *Wasaṭiyyah* dalam penilaian kawalan dalaman institusi *Waqf* dapat meningkatkan tadbir urus institusi *Waqf* secara baik dan berkesan.

Kata kunci: Tadbir urus, *Wasaṭiyyah*, institusi *Waqf*, kawalan dalaman, dan Malaysia.

1.0 Introduction

Good governance is an essential consideration that needs to be evaluated in relation to management of a certain institution (World Bank, n.d.). With good governance, the institution has the ability to perform its responsibilities towards its stakeholders in effective and fair manners. The rights of the stakeholders can accordingly be met and fulfilled either directly or indirectly by the institution. Additionally, any possible risks that may relate to the institution and its management can be minimized. While, the optimum performance of the institution can be maximized in a long run (Brown & Caylor, 2004). Furthermore, any possible threats to the institution's management such as corruption and fraud can be avoided or at least can be easily detected (Farber, 2005). From a perspective of dispute avoidance, this is important to avoid occurrences of future legal disputes with the relevant stakeholders, breach of trust and misappropriation of the institution's funds (Labelle, 2010).

The good governance of an institution can be categorized into the evaluations of internal control and external control. The external control is closely related to the institution's market-based mechanism in handling external issues such as competition, government regulations, compliance with the laws, media pressure, demands from the public and assessment of its performance (Walsh & Seward, 1990). The internal control is more focused on the integral part of the institution in managing and monitoring risks, its administration, its treatments

towards threats and opportunities in reaching the institution's objectives
(Tophoffs, 2012).

As a non-profit charitable and religious foundation, a *Waqf* institution
is not exempted from carrying their responsibilities as an institutional
trustee towards the relevant stakeholders, especially towards the *Wāqif*
or the founder of *Waqf* (Sulaiman & Zakari, 2015). The practices of
good governance in the *Waqf* institutions' managements and their
organizational systems can be carried out through their internal control.
By investigating the internal control of *Waqf* institution, this research
aims to appreciate the *Wasaṭiyyah* approach for sake of achieving the
practice of good governance, while reaching the *Maqāṣid al-Sharī'ah*
(the objectives of the Lawgiver).

By employing a qualitative research method, this research is
structured as follows: (i) the introductory section, (ii) *Wasaṭiyyah*
approach in a brief analysis, (iii) the internal control of the *Waqf* institution
and its components, (iv) the appreciation of *Wasaṭiyyah* approach in
the internal control of *Waqf* institution, (v) recommendations, and (vi)
conclusion.

2.0 *Wasaṭiyyah* Approach: A Brief Analysis

The concept of Wasaṭiyyah is originated from Sūrah al-Baqarah: 143
that said *"And thus we have made you a just community that you will be
witnesses over the people and the Messenger will be a witness over you.
And We did not make the qiblah which you used to face except that We
might make evident who would follow the Messenger from who would
turn back on his heels. And indeed, it is difficult except for those whom
Allāh (God) has guided. And never would Allāh (God) have caused
you to lose your faith. Indeed Allāh (God) is, to the people, Kind and
Merciful"* (Quran.com, 2017). Based on the works of the 21st century
Muslim scholar, Imam Yusuf al-Qaradawi, the intellectual discourse
on *Wasaṭiyyah* is expanded further in tackling issues in socio-political
dimension of modern Muslims (al-Qaradawi, 1992). The works of Imam
Yusuf al-Qaradawi are focused to provide guidelines that extremism
that leads to violence and terrorism is abhorred in Islam. With the
existence of *Wasaṭiyyah*, extremism or laxity is excluded from being a
part of Islam as a religion and *Sharī'ah* as the prescribed laws. From the
early works of Imam Yusuf al-Qaradawi, the intellectual discourse on
Wasaṭiyyah is expended further to other field of studies.

This can be seen from the works done by the celebrated Emeritus Prof. Dr. M. Kamal Hassan. According to Hassan, *Wasaṭiyyah* provides a holistic approach in viewing the civilization and inter-societal order of modern Muslims (Hassan, 2011). As an approach, *Wasaṭiyyah* can be found throughout different field of studies that related to Islam and *Sharī'ah*. In subsequent works such as in "Applications of *Wasatiyyah* in the Contemporary Muslim World" (2015) and "Wasatiyyah (Moderation): A Multidisciplinary Study" (2014), the traces of *Wasatiyyah* in legal, counselling, insurance, historical and economics studies are explored.

This research is an attempt to explore the existence of *Wasaṭiyyah* approach in relation to the internal control as a part of good governance for *Waqf* institutions in Malaysia. Therefore, it is necessary to evaluate the definition of *Wasaṭiyyah* as used in the related Islamic intellectual discourse. The discussion is presented here in brief.

2.1 Definition of *Wasaṭiyyah*

The term '*Wasaṭiyyah*' originates from Arabic word that has no equivalent term in English that can define its true meaning (Mohd. Zain, 2014; Kamali, 2008). From the term of '*al-Wasaṭiyyah*', a root word i. e. '*wasat*' is derived. '*Wasat*' means 'middle or balance or moderate' (Ibrahim et al., 2013). In the opinion of Imam Ahmed Saad, the word '*wasat*' has similar meaning with 'virtue' that indicates 'the mid between two bad characters or two bad extremes' (Al-Wasatiyyah, 2013). There is a variety of technical meanings of '*wasat*' which includes 'fairness, moderation, sticking to virtue and striking balance' (Mohd. Zain, 2014). In relation to *Wasaṭiyyah*, its meanings connote 'moderation, justly balanced, justice and fairness' (Mohd. Zain, 2014). For the purpose of this research, *Wasaṭiyyah* is taken to indicate the meaning of 'justly balanced'.

In the context of *Wasaṭiyyah* as a justly balanced, the discussion provided under the Islamic intellectual discourse is wide and comprehensive in nature (al-Qaradawi, 1992; Hassan, 2011). Thus, Muslim jurists do not depend on a specific definition for *Wasaṭiyyah* (Mohd. Zain, 2014). Based on the on-going intellectual discourse among Muslim scholars, there are several definitions of *Wasaṭiyyah*. Among others are listed as the following:

    i.   Abdul Hayei Abdul Sukor defines *Wasaṭiyyah* as a "place that is located in the middle of equal length around it" (Ibrahim et al., 2013);

   ii.   Zainal Kling indicates *Wasaṭiyyah* as "fair, the best, selected (in quality), most refined (as art) and honour" (Ibrahim et al., 2013);

  iii.   Hassan takes *Wasaṭiyyah* as "one does not exaggerate and go beyond the limit set by Allāh (God), and that one does not neglect it and fall short of the limit set by Allāh (God) … to follow the example of the Prophet Muhammad (bless and peace be upon him)" (Hassan, 2011);

  iv.   Ibnu Taymiyyah considers *Wasaṭiyyah* as "the opener or key to the straight path" (Muhammad, 1998).

By following the definitions as given by Ibnu Taymiyyah and Kamal Hassan (Hassan, 2011; Muhammad, 1998), when a person or an institution follows and applies *Wasaṭiyyah* in their daily activities or in their organizational system, they have to follow the limits as set by Allāh (God) the Exalted and not to breach such limits. This can be done by following the *Sunnah* of Prophet Muhammad (bless and peace be upon him). This can also be extended to religious institutions such as *Waqf* institution through their management, policy and administration. Ibnu Taymiyyah also considers that *Wasaṭiyyah* or justly balanced is important for a Muslim in understanding their religion (Mohd. Zain, 2014).

2.2 *Wasaṭiyyah* Approach in *Waqf* institutions

In reaching the *Maqāṣid al-Sharīʿah* (the objectives of the Lawgiver), *Wasaṭiyyah* or justly balanced is important to be applied. This is not limited to an individual level alone, but it extends beyond any level, organizational or institution that claimed to be religious and Islamic in nature. As found by Masudul Alam Choudhury, consistent with *Tawhid* (Oneness of Allah) (Choudhury, 2016), *Wasaṭiyyah* or justly balanced as an approach must be observed where the limits must not be transgressed and the stipulated rights must be fulfilled. Based on the circular causal interrelationship between *Tawhid*, *Wasaṭiyyah* and *Maqāṣid al-Sharīʿah* (Choudhury, 2016), when the *Wasaṭiyyah* approach is applied especially in a religious or Islamic institution, it is expected that: (i) the institution will be operated consistently to achieve the *Maqāṣid al-Sharīʿah*,

(ii) abstinence from any deviation of Islamic values in relation to management and administration, and (iii) avoidance of two extremes, either laxity or extremism (Mohd. Zain, 2014), especially in carrying the religious responsibilities of the institution.

Waqf institutions in Malaysia are accepted as religious, charitable and Islamic philanthropy institutions (Yaacob et al., 2017; Pitchay et al., 2014; Ab Hasan et al., 2015). It is designed in providing assistances to the socio-economic development of the society (Hodgson, 1974). *Waqf* itself can be defined as the "confinement of a property (whether movable or immovable) by a founder(s) and the dedication of its usufruct in perpetuity to the public or to the family" (Mohsin, 2009). It is akin to the charitable endowment that is famously utilised under the English law (Gaudiosi, 1987). Upon the creation of *Waqf*, the sustainable financing for the society is ensured with the main characteristics of *Waqf* which are: (i) it is perpetual subject to the existence of the property, (ii) it is inalienable to others, and (iii) once, it is made it cannot be revoked (Al-Shirbini, 2015). In Malaysia, the management of *Waqf* is placed under the *Waqf* institutions. This is necessary to ensure that the created *Waqf*s fulfil their specific purpose of creation, *Maqāṣid al-Sharīʿah* and properly utilised for the society.

As an Islamic and religious institution, the approach of *Wasaṭiyyah* or justly balanced should be considered by the *Waqf* institutions in relation to their management and administration. This is not only beneficial in achieving the *Maqāṣid al-Sharīʿah*, it is also consistent with *Tawhid* and advantageous in reaching good governance. There are no fast and hard rules on the application of *Wasaṭiyyah* approach. This allows the *Wasaṭiyyah* approach to remain flexible to be adopted in any system, as long as the limits prescribed in *Al-Qurʾān* and *Sunnah* are followed. Based on a presentation by Kamal Hassan (2013), *Wasaṭiyyah* as an approach must have three main components which are:

  i.   Justice (*Adl*) (*Al-Qurʾān*, 2:143): it requires "being in the middle-most position between two or more opposing sides, without inclining to or favouring any of the sides, and not swayed by emotions, biases or prejudice in making judgements, decision or solving dispute" (Hassan, K., 2013);
  ii. Excellence (*Khairiyyah*) (*Al-Qurʾān*, 3: 110; *Al-Qurʾān*, 3:104): it relates to being "the best, most preferred and goodness"

(Hassan, K., 2013). As commanded by Allāh (God) the Exalted, a Muslim or Muslim community or Islamic institution or Islamic civilization must always "enjoin all that which is good (*al-ma'ruf*) and prohibit the evil (*al-munkar*)" (Hassan, K., 2013). Thus, they can stand as the best examples.

iii. Balanced (*Tawassut*): There is a lengthy discussion among Muslim scholars in relation to balanced. In summary, balanced can be in form of (a) personal conduct or behaviours (*Al-Qurʾān*, 31: 18; *Al-Qurʾān*, 31: 19); (b) balance between worldly goals and goals for the hereafter (*Al-Qurʾān*, 28: 77); and (c) balance in economic consumption by taking what is permissible and avoiding prohibited things (*Al-Qurʾān*, 5: 88).

From a perspective of public administration, these three components can be measured by looking into the performance evaluation process that is used to ensure the effective governance (Abdul Ghani Azmi, 2015). The performance evaluation process is related to measurable elements such as: (i) integrity, (ii) accountability, (iii) monitoring, and (iv) transparency (Abdul Ghani Azmi, 2015).

3.0 Internal Control of *Waqf* Institutions and its Components

As a part of good governance, the evaluation of internal control is a must for *Waqf* institutions in Malaysia. It is not only beneficial for the performances of *Waqf* institutions, but it is also essential for detection of any misappropriation and mismanagement.

At its early development, internal control is known as internal check (Sawyer, 2003). Internal control is related to the institution's structure in managing their activities. AICPA (2006) defines the internal control of an institution as "the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies". In relation to an institution that possesses the same features as a company, the internal control is "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding to the achievement of objectives in the following categories: (i) effectiveness and efficiency of operations; (ii) reliability of financial reporting; and (iii) compliance with applicable laws and regulations" (COSO, 1994). Without having a

proper internal control, the effectiveness of the institution's governance cannot be claimed as satisfactory.

There are basically five (5) main components which are essential to be present in measuring the effectiveness of internal control of an institution (Noorvee, 2006). Based on a research done by Johari et al. (2016), *Waqf* institutions may also have the said five (5) components in consideration of having an effective internal control. The said five (5) components of internal control are:

i.   Control environment: it concerns about the overarching approaches that are used by the *Waqf* institution in relation to their commitments, control system and management of the entire organizational structure. The significant features that may include in control environment are control objectives, integrity and ethical values, function of the top management, style of operation, organizational structure, competencies of financial reporting, management's authority and responsibilities, and human resources (Noorvee, 2006; Colbert and Bowen, 2006; COSO, 2005);

ii. Risk assessment: it concerns about the identification of risks that are faced by the institution and the manners on how the risks are accordingly handled. It can be related to risk identification, risk analysis and risk reporting (Tchankova, 2002; Covello, 1985; Slovic et al., 2004; Linsley & Shrives, 2006; Amran et al., 2008).

iii. Control activities: it concerns with the policies and procedures that are applied by the *Waqf* institution to safeguard the smoothness of their management. The control activities can be subjected to the activities which under the institution's control such as approvals and segregation of duties among their staffs, elements of control activities i.e. the established policies and procedures, the development of control activities such as through the trainings of the officers, and the control over the information where certain information can be subjected to confidentiality (Noorvee, 2006: 30; COSO, 1994; Pettigrew, 1972).

iv. Relevant information and communication: they concern about the collection of correct and relevant information by the *Waqf*

institution. Such information should be delivered accordingly to the right people in the *Waqf* institution. They are closely related to sources of information and communication, the process in handling and delivering the information or communication, and the period of time that is taken to convey such information or communication (Klein, 1996; Reisman, 1981; Hovland, 1951).

v. Monitoring: it concerns about the examination of the internal control system such as through the internal audit with a purpose to safeguard its functions. Monitoring is related to the on-going monitoring, the separate evaluation for each of the internal control's components, and the identification of reporting deficiencies (Tsay, 2010; Noorvee, 2006; Spira & Page, 2003; Rittenberg et al., 2007).

By having the said five (5) components of internal control with embedded *Wasaṭiyyah* values, the *Waqf* institutions can be elevated especially in their good governance practices. Additionally, the identification of strengths and weaknesses of the said institution can be carried out simultaneously. In eliminating the weaknesses and appreciating the strengths, the *Waqf* institutions eventually may be operated in effective manner and sustainable for the future.

4.0 *Wasaṭiyyah* Approach in Internal Control of *Waqf* Institution

By following the discussion above, it is clear that the internal control is important in achieving good governance and it stands with five (5) main components. *Wasaṭiyyah* approach is essential to be considered in the evaluation of the internal control of *Waqf* institutions. The components of *Wasaṭiyyah* approach which are justice, excellence and balanced must be applied accordingly in order to assist and improve the *Waqf* institution to be consistent with the *Maqāṣid al-Sharī'ah* (the objectives of the Lawgiver).
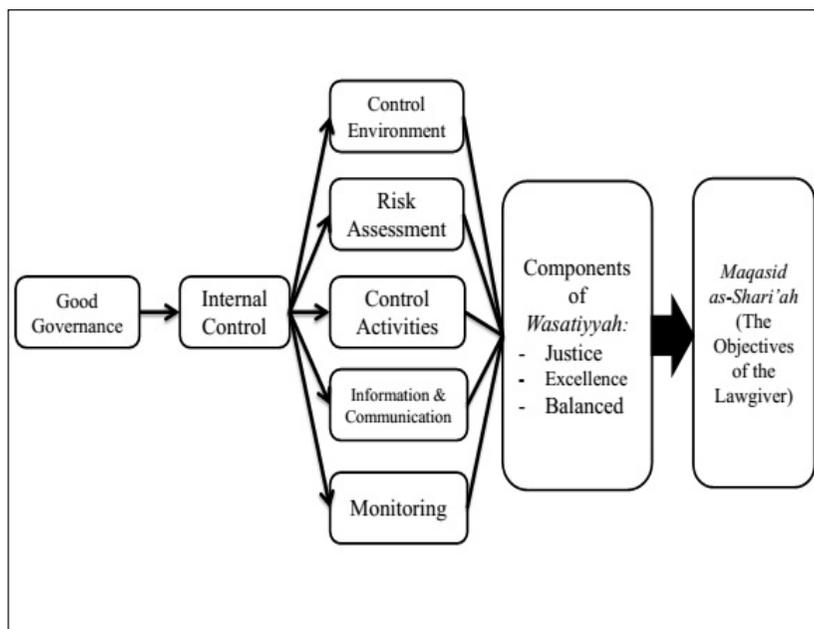
The appreciation of *Wasaṭiyyah* approach in the internal control of *Waqf* Institutions can be seen as follows:

i. Control environment: when *Wasaṭiyyah* approach is applied to the control environment, all the related features are developed to be within the limits as set by the *Al-Qur'ān* and *Sunnah*. The *Waqf* institution's control objectives may be set to incline towards promoting good and avoiding harm. Indirectly, it will

open to new opportunities in appreciating the Islamic principles from organizational structure, functions of the top management and in their financing reporting. The human resource, integrity and ethical values may be increased accordingly;

ii. Risk assessment: the *Wasaṭiyyah* approach can also be used in relation to risk assessment. It will not only encourage the *Waqf* institutions to be just in their risk reporting, but also to evaluate the risks and analyse them in balanced and fair manners.

iii. Control activities: in relation to the *Waqf* institutions' policies and procedures, the *Wasaṭiyyah* approach encourages the appreciation of concept "doing good and preventing harm" in safeguarding their managements. By having so, the policies and procedures of the *Waqf* institutions can be avoided from being too strict or too loose in handling certain issues or problems. The serious detriment to the *Waqf* institutions' core values or objectives may also be avoided by considering a proper control in the institution's activities;

iv. Relevant information and communication: in appreciating the *Wasaṭiyyah* approach in relation to information and communication, the *Waqf* institutions must not extremely confine themselves towards one specific source of information, views or Islamic school of legal thought (*Maḍhab*). Involvements of experts are necessary in identifying the authenticity of information obtained. Moreover, they must open themselves up in utilizing the use of modern technology of communication such as e-mail and online social media. By having so, they can provide a better understanding about *Waqf* and their institutions to the public at large. This can shorten the use of valuable time in conveying any information.

v. Monitoring: by appreciating *Wasaṭiyyah* approach in the on-going monitoring and identifying the deficiencies in reporting, the monitoring must be done with just and without favour or fear. This is essential in identifying the *Waqf* institutions' strengths and weaknesses. It is also important in detecting any existence of mismanagement and dysfunctional in the *Waqf* institutions. Moreover, existence of fraud and misappropriation of *Waqf* fund can be detected through the identification of deficiencies in reporting.

Figure 1.0: Relationship of internal control's components and Wasaṭiyyah approach.

Source: Authors' own.

5. Recommendations

In improving the internal control as a part of good governance in the *Waqf* institutions, it is important to appreciate the *Wasaṭiyyah* approach. Therefore, it is recommended that the *Waqf* institutions to evaluate their internal control. Such evaluation of their internal control should be based on *Wasaṭiyyah* approach's components which are justice, excellence and balance. Moreover, the components of the internal control in the *Waqf* institutions must be examined separately in order to detect any discrepancies (especially in reporting) and weaknesses. When such weaknesses are identified, the *Waqf* institutions must be fair in admitting their weaknesses and improve such weaknesses. *Wasaṭiyyah* approach is also important in the improvement of their staffs' or officers' ethical values and integrity. In doing so, it is necessary to develop suitable tools in measuring the internal control and its components as applied in the *Waqf* institutions in Malaysia.

6. Conclusion

As a part of good governance, it is necessary to evaluate the internal control of *Waqf* institutions in Malaysia. There are still less researches done pursuant to the internal control as applied in *Waqf* institutions, even though there is a significant improvement detected in relation to reporting of the *Waqf* assets (Yaacob et al., 2016). Moreover, the internal control is important to be practiced in supporting the institutions in reaching its objectives. Meanwhile, *Wasaṭiyyah* approach is important to safeguard the internal control of the *Waqf* institution to be consistent in achieving the *Maqāṣid al-Sharī'ah* through the appreciation of justice, excellence and balance. Hence, *Wasaṭiyyah* approach should be appreciated in the internal control of *Waqf* institutions and it can assist the *Waqf* institution to achieve good governance in their systems.

7. Acknowledgment

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In This Issue