

# Current Disclosure Practices by zakat Institutions In Malaysia: An Exploratory Study

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## Abstract

To fulfill the concept of *maqasid shari'ah* as well as to be in lined with the efforts from the Malaysian National Audit Department (MNAD) in improving accountability and transparency in the public sectors, zakat institutions are no exceptions in this case. Zakat institutions need to ensure that the funds collected and disbursed are reported accordingly. Prior studies have shown that zakat payers' were dissatisfied on the lack of information disclosed in zakat disbursement's information among zakat institutions in Malaysia. Hence, leads to questions of accountability in the dissemination of information that might have caused from the inconsistencies in the disclosure practices among zakat institutions in Malaysia. Further, the nonexistence of a regulatory body or, zakat accounting standards to regulate and provide guidelines for reporting and disclosure, increases the information gap. Therefore, this study intends to investigate the current disclosure practices among zakat institutions; that put focus on financial, nonfinancial and governance information. Semi-structured interviews were conducted with zakat payers. The findings highlight that zakat payers were of the opinion that disclosures practices among zakat institutions were inadequate. The study concludes that the issue of accountability among zakat institutions is still questionable and many rooms need to be improved.

**Keywords:** Zakat disclosure practices, accountability, financial, non-financial and governance information

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## 1. INTRODUCTION

Zakat is one of the five pillars of Islamic faith. Sabahaddin (1989, p.101) described *zakat* as a compulsory payment, levied on the members of the Muslim community, so as to take the surplus money from the comparatively well-to-do-members of the society and to give it to the destitute and the needy. This compulsory obligation is based on the evidences in the Qur'an and *hadith*<sup>1</sup> as follows:

*"O ye who believe! Give of the good things which ye have (honourably) earned, and of the fruits of the earth which We have produced for you, and do not even aim at getting anything which is bad, in order that out of it ye may give away something, when ye yourselves would not receive it except with closed eyes. And know that Allah is Free of all wants, and worthy of all praise"*  
(al-Baqarah: 267)

*"Whereas Prophet (SAW) urged us to pay zakat on products that we offer for sale"*  
(Narrated by Abu Daud)

In essence, this obligation plays a vital role in Islamic economy and most importantly, it is one of the essential economic tools to relieve naked poverty among members of the *ummah*<sup>2</sup>. In Malaysia, Islam is known as the dominant religion and zakat obligation has been introduced before colonization. As a Muslim country, with a population reaching 30 million (Melissa, 2014), zakat practice is not considered alien to Malaysian Muslim

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<sup>1</sup>Prophet practices

<sup>2</sup>Muslim community

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believers. Currently, zakat activities have shown a positive sign and is a fast-growing activity, as evidenced by the funds collected up to RM492 million in 2013 by one of the fourteen states in Malaysia, which is Wilayah Persekutuan (Majlis Agama Islam Wilayah Persekutuan, 2013).

Zakat institutions, or known as “Baitul Mal” under the State Islamic Religious Council (SIRC) in each state in Malaysia, are responsible for collecting zakat, which is then disbursed to the eight groups of recipients. Meanwhile, at the federal level, the Department of Awqaf, Zakat and Hajj (JAWHAR) was formed to coordinate and promote these institutions as well as to increase efficiency of the SIRCs in all states across the nation since different enactments are formulated separately in each state (Norazlina & Abdul Rahim, 2011).

As a religious institution and to secure public perception, especially the Muslim community, zakat institutions in Malaysia need to ensure that the funds collected and disbursed are reported accordingly. Recently, several states such as Selangor, Wilayah Persekutuan, Pulau Pinang, Melaka, Pahang, Negeri Sembilan, Sabah and Sarawak have taken proactive steps by privatizing and corporatizing their operation as to function more effectively and efficiently. In fact, such initiative is to build confidence and trust among the zakat payers, which subsequently leads to more eligible zakat payers paying zakat through formal agencies (Sharifah Norzehan, 2011). However, Hairunnizam, Sanep & Radiah (2009); Kamil (2005); and Hairunnizam, Sanep & Radiah (2010) revealed that most of the zakat payers are dissatisfied with the current zakat disbursement system, regardless of the privatization and corporatization of some of the institutions, as a result they are paying zakat directly to the beneficiaries and surprisingly, about 50% of dissatisfied payers do not commit to zakat payment. In a similar spirit, Hairunnizam et al. (2010) opined that the reasons why zakat payers prefer to pay directly to the beneficiaries are the inefficiency of disbursement methods and lack of information given by the zakat institutions.

Despite debates on the above issues, little has been said about the reporting aspect, especially in the disclosure of accounting information. Although the financial statements are prepared by the institutions, it still leaves doubt to the zakat payers with respect to the information being disclosed by them. This study believes due to the absence of a monitoring body, which is responsible to standardize the reporting practices, coupled with the inconsistency of disclosure practices as a result of different enactments and fatwa released among zakat institutions in Malaysia, accountability through disclosure of information is particularly essential. Therefore, to have a clearer view about the issue, this study aims to investigate the current disclosure practices among zakat institutions by giving attention to three important information in annual report i.e. financial, non-financial and governance information.

## **2. ZAKAT REPORTING AND DISCLOSURE PRACTICES IN MALAYSIA**

A majority of the zakat institutions in Malaysia follow a set of financial guidelines and standards; however, the types of standards are varied among the states (Hareed, 2008). As far as disclosure practices are concerned, Hareed (2008) mentioned that to ensure that the financial reports prepared meet the requirements of the users/public, the directors of zakat institutions are the first person that would check the reports and besides the director, a controlling officer/finance committee is also involved in reviewing the reports before they are distributed. Hareed (2008) further added the financial reports prepared are disseminated to selected users/stakeholders; the majority of the zakat institutions actually do provide reports to: 1) controlling officers/finance committee; 2) zakat payers; 3) religious councils; 4) administrative staff; and 5) the representative of the public and government agencies. In terms of the types of financial statements, he further described that most of the zakat institutions provide statements of collection and disbursement, Balance Sheet and income statement, except for Sabah, which did not include a Balance Sheet in its financial reports. Sharing the same view, Siti Rokyah (2005) revealed that low disclosure practices and little information have been reported by the SIRCs.

Realizing the importance of the financial information to zakat payers and zakat recipients, studies on disclosure practices of zakat institutions have slowly caught the attention of researchers (see Noorlaila, Roshayani & Norzaihan, 2013; Sheila Nu Nu & Syed Ahmed, 2014). Noorlaila et al., (2013) found the same finding as Siti Rokyah (2005), which is that zakat reporting practices differ among SIRCs. Noorlaila et al. (2013) also revealed that the overall content and level of disclosure practices showed below satisfactory level, which is insufficient to demonstrate its accountability and transparency. Meanwhile, Sheila Nu Nu & Syed Ahmad (2014) admitted that zakat institutions in Malaysia need guidelines especially on financial information disclosure. Sharing a similar spirit, Hareed (2008) opined that although the majority of the zakat institutions have written financial policies and procedures, which provide a basis of the financial control procedures, these documents were only in written form and there was a need of enforcement of these policies and procedures.

In sum, little concern has been given on the issue and the literature shows that comparatively fewer studies have been conducted in this area and most of the studies are still considered at the exploratory stage. As a religious and social institution, the issues on how the zakat institutions are governed need to be addressed properly. The practice of good governance, especially in terms of accountability, transparency and efficiency through disclosure may somehow provide a way to improve the current situation.

## 2.1. Disclosure from Islamic perspective

Several studies have explained the disclosure of information from Islamic view. Authors such as Baydoun & Willet (1997) have promoted four objectives of accounting disclosure for Islamic firms, which are to avoid *riba*, to pay zakat, to be socially accountable and to provide full disclosure. Full disclosure does not mean that everything must be disclosed. As long as the information is deemed relevant and reliable and if there is a need to disclose for, e.g., activities or income from non-halal sources, it should be disclosed together with the method of disposing of it.

### 2.1.1 Disclosure studies in Islamic organisations: Zakat institutions

As far as disclosure of zakat institutions is concerned, Noorlaila et al. (2013) investigated the extent of zakat reporting practices disclosure among SIRC's using a self-developed index i.e. Zakat Reporting Practices Disclosure Index (ZRDI). They revealed the reporting practices are varied among SIRC's, and overall content as well as the level of disclosure practices showed below satisfactory level, which is insufficient to demonstrate its accountability and transparency. In a similar spirit, Sheila Nu Nu & Syed Ahmad (2014) proposed the best practices of financial information disclosure for zakat institutions. The findings showed that zakat institutions in Malaysia need guidelines, especially on financial information disclosure. They also discussed the important information that would be reported as suggested by the respondents, such as disclosure on accounting policy, changes and board of trustees, risk management, statement of internal control, important highlight, disclosure on zakat collection and distribution and Statement of Cash Flow.

Considering the fact that the main activities of zakat institutions are dealing with collection and moreover, with the disbursement of zakat, the disclosure of zakat information is really in need. The findings from the above disclosure studies portray that there are minimal disclosure practices among religious institutions in particular zakat institutions. Most importantly, the issues of accountability, transparency and efficiency relating to disclosure should be further examined. Hence, discussion on each element is discussed below.

## 2.2 Accountability of Zakat institutions

Essentially, the foundation of accountability in Islam lays from the two basis, a) paradigm of *Tawheed* (oneness of Allah SWT) and 2) ownership (vicegerent) (Maali et al., 2003 and Maali & Napier, 2007, as quoted by Hasan & Siti Nabiha, 2012; Hairul & Hisham, 2011). The paradigm of *Tawheed* explains that there is only One and only supreme universal God, i.e. Allah (SWT); the Creator and Sustainer of the universe, to whom predominantly Muslims are ordered to devote, oblige total submission and obedience to Allah's will. Hence, Muslims have to be faithful to the religious rules in all aspects of life (Hairul & Hisham, 2011; Hasan & Siti Nabiha 2012). Secondly, the concept of ownership (vicegerent) is such that the true owner of all wealth is Allah (SWT). Man is the only vicegerent on earth; and being entrusted to safeguard all the resources according to Allah's will, i.e. good deeds. In other words, man is not the real owner of the wealth; they only act as an agent where Allah (SWT) gives them the right to use and enjoy using them (Lewis, 2001; Hairul & Hisham, 2011).

As far as *zakat* institutions are concerned, the eligible payers and the rightful recipients of *zakat* fund have been stated in verse 267 of *Surah al-Baqarah* and verse 60 of *Surah at-Taubah*. These verses actually order the *zakat* managers/employees to collect and disburse the *zakat* fund accordingly. With regards to the accountability and *zakat* institutions, to obtain an insight about the existing accountability practices in *zakat* institutions is a challenge to the study, as the true result of the performance is not easy to attain. However, in accounting literatures, many authors provide instruments for measuring accountability and one of them is evaluating the disclosure of the financial statements and reports (Ebrahim, 2003; Marston & Shrivess, 1991). Next, the theoretical framework of the study is explained.

### 3. THEORETICAL FRAMEWORK

The study uses agency theory, which explains the pure agency relationship is between the shareholders (owner) i.e. principal and managers of the firm, i.e. agent (Jensen & Meckling, 1976). Lambert (2001) further mentioned principal is the party that expected to supply or raise the capital, bear risks and to construct incentives, whereas the agent is required to complete the tasks, make decisions on behalf of the principal and to bear the risks (of a secondary type - events that beyond the agent's control). In the context of zakat, the study classified the zakat payers is the principal whereas, zakat institutions are classified as the agent in this agency relationship. Although the agency relationship is governed by the contract, which specifying the agent's duty, obligation as well as the incentives being assigned (Shamsuddin & Ismail, 2013), nonetheless, the agency relationship creates conflicts / problems between principal and agent. Each party is assumed to be utility maximizer, having self-interest and opportunistic behavior which commonly being discussed in profit making motive organisations.

In conventional context, such assumptions exist as the objective is to maximize shareholders wealth as well as profit making motive. Both of them trying to gain as much as they can, high dividend for the principals (shareholders) and incentives like bonuses to the agents (managers). While in zakat context, the objective is to attain socio-economic justice, hence the presence of this assumption is a bit different as compared to the conventional ones. In other words, the eligible zakat payers are not receiving money in return (while, dividends received by the shareholders in conventional view), since paying zakat is religious obligation; however, such investments would be rewarded in the hereafter. Thus, the zakat payers would like to gain as much as they can get the rewards as well as to get ALLAH's blessings in this world and hereafter. Simultaneously, as this is religious duty the zakat payers (principal), would like ensure/know the zakat money is being managed effectively and efficiently at the maximum level. Whereas, zakat institutions (agent), aims to collect as much as they can (in term of number of zakat payers and total amount collected). At the same time they also have to disburse as much as they can, and earliest to the zakat recipients (in term of number of zakat recipients and total amount disbursed). Based on the above argument the study believes the agency theory can be used to explain the issue in zakat context, hence the zakat payers' views on the current disclosure practices specifically the annual report of zakat institutions were then being explored.

### 4. RESEARCH METHODOLOGY

In answering the objective of the study and to gain a deeper understanding on zakat payers' view on the current disclosure practices, semi-structured interviews with academic scholars that represented by zakat payers were conducted. Since the aim of qualitative study is not generalize the research findings in a statistical sense, or cannot confidently generalized to the population, hence judgment sampling is chosen in operationalizing the findings. The study believes this group is capable to convey much information related to disclosure practices, since all of them are scholars in religious institutions such as State Islamic religious Institutions (SIRCs), waqf, mosque as well as in auditing field. Firstly, the study contacted them through telephone; subsequently, those who were willing to participate are then contacted to arrange the date, time and place for interview. The study contacted six zakat payers, and four of them were willing to be interviewed. Each interview session was then recorded and transcribed.

Secondly, in doing qualitative research, it demands the study conducted is able to demonstrate its credibility. Creswell & Miller (2000), described, the term credibility is referred to the concept of validity, which is one of the strengths in qualitative study. Thus, to ensure its credibility, members checking technique was employed in this study; similar to (Bakar, 2013). In addition, the basis of choosing this procedure is due to the time factors and its relevance to the study. The result of the interview are discussed next.

### 5. RESULTS

Discussion of the results, mainly focuses on the three categories of disclosure information i.e. financial, non-financial and governance information among zakat institutions. A few sub-items for each category also being discuss as to get clearer picture on each category disclosure practices.

#### 5.1 Financial information of *zakat* institutions

As far as the current disclosure is concerned, the participants indicate there is an inadequate information being shared with the *zakat* payers; in fact, the reporting aspect could be improved. One participant said, *"I quite rarely check the annual reports of the zakat institutions, this is because some of the information is not informative/available and I go to the other sources, e.g. bulletin and so on. Even last year, when Lembaga Zakat*

Selangor published their report in the newspaper, I think the reporting needs to be improved. This means the information prepared should be understandable, available, accessible, i.e. online annual report” (ZP-03).

In fact, only certain states published their annual report in the website. It is further supported by the comments given by the participant, “It is not accessible to the public, the most that we can have Selangor and Wilayah, they disclose their collection and disbursement, the information disseminated to the public not the full financial information i.e. partial financial information maybe on zakat collection and zakat disbursement, those by right accessible to the public, but the real financial statements normally in Malaysia private and confidential”, (ZP-04).

The above findings conclude that the disclosure practices are still at the minimal stage due to the availability and accessibility issue among zakat institutions in Malaysia. Next, the detail of receipt and payment information is then further explored.

#### 5.1.1 Receipt and payment information

With regards to receipt and payment information, the participants suggested the zakat institutions should be more transparent in reporting this item. From public perspective minimal information about receipt and payment, as highlighted by one participant, “people like me, I do the research and have seen about it, from public point of view then not much people know about it, How much money collected and distributed, at the end of the month or at the end of the year you have balance not disburse”, (ZP-04). The issue on collection overweigh disbursement is also being raised by other participant. Realizing the zakat institutions receiving a huge amount of zakat collection at the end of the year, due to tax rebate offered by the Inland Revenue Department to the individual zakat payers, the participant highlight the issue and provides ideas, “Since they have been blamed that money collected not being spent as soon as possible. I personally agree that this issue arises because of the accounting problem, somehow or rather zakat receive at the end of the year, can we imagine they received in December, and logically would they be able to disburse at the end of the year or on 31 December, they can’t disburse directly. Public needs to understand, zakat institutions cannot just disburse directly, they have to tell the public, how much the money received in December and how much the balance that have not been disbursed and when zakat institutions expected to disburse the money”. (ZP-03).

The above discussion portrays the issue of non-disbursement balance is highlighted and coupled with lack of disclosure, it reveals the disclosure on the receipt and payment really important items to the zakat payers and need to be disclosed in details.

#### 5.1.2 Issue of non-disbursement balance (NDB), timely disbursement technique and length of period to disburse NDB

The issue of non-disbursement balance attracted the participants’ attention, where one participant raised such issue may affect the effectiveness of the institutions itself, “the zakat institutions should be more transparent on collection and disburse as soon as possible, if they are not able to disburse during that year, they shall provide justification and planning to disburse the money to the users” (ZP-03). In other words, proper planning and strategies have to be initiated in ensuring the money is disbursed as soon as possible. Moreover, other participant classified effectiveness in two ways, i.e. timeliness and the planning and strategies, “Timeliness effectiveness means if they can disburse to the right asnaf and as soon as possible (quickly), then the one year period (benchmark) within year. They can put start date if most of the zakat payers pay in December as long as they disburse in November in the following year that it would be good. My concern if we suggest to disburse at the end of the year (dateline), perhaps the issue of less effectiveness maybe arise, since they might disburse to all of poor people without thinking who actually deserve the money (not really efficient). While, in term of planning and strategies the disbursement of the zakat money, there certain times when a bit money is needed. If they zakat institutions can do that, I would consider themselves as effective. Hence they need proper planning” (ZP-01).

With regards to timely disbursement technique, again proper strategy need to be imposed, the participant proposed that “the zakat institutions should have a database to keep the records of all asnaf and potential recipients (after doing all the identifying, investigating, recording and etc.). The database will be used for to budget and planning for the asnaf so that by the end of the year, they would able to disburse the collection for the current year sooner” (ZP-03). Apart from that, an interesting idea of localization also being shared, “I like the idea local participation,

*but not directly from zakat payers, but we need some administrator like Village Committee or Jawantan Kuasa Kampong (JKK) etc.” (ZP-02).*

In terms of the length of period to disburse the balance of the zakat money, the participant recommended that, *“personally if we put some duration it would beat the purpose of zakat, just for the sake of disbursing the money. I would say at least three months depending on the coverage area of the state. However, it depends on the state’s effectiveness in disbursing the money”*(ZP-01) and (ZP-03).

In this context, the participants realized that it is quite difficult to disburse the money received at the end of the year; however, the *zakat* payers suggested that such issues can be controlled if the *zakat* institutions have a proper planning on future activities and having a good strategy, *zakat* institutions may able to handle the issue as well as avoid giving *zakat* to undeserved recipients. Meanwhile, in terms of timely disbursement technique, most of them agreed that the fund should be spent as soon as possible and it is suggested to be disbursed at least three to six months, i.e. between March to June in the following year.

In relation to disclosure, it seems that the issue arises as the rationale on this matter is not being reported clearly in the annual report i.e. planning and strategy to disburse the fund is not being properly communicated to the users. This eventually create a gap where the *zakat* payers perceived it different

## **5.2 Non-financial information by the *zakat* payers**

In view of non-financial information, having similar nature as financial information above, they perceived the information such as activities that have been carried out for *asnaf* should be more detailed as well as available online. They preferred to know information in details, especially the *zakat* institutions activities. One participant asserted that *“I would prefer to know more about non-financial information especially in philanthropy, NPOs field, and contributors would be more interested to know the end result of their contribution. The money has already been spent for what purposes, what are the lists of the activities that have been done by zakat institutions. We want to know where the money goes to and how it is being used and how effective the zakat institutions are in using the money to disburse to the zakat recipients”*, (ZP-03). One participant further asserted that *“Generally, my concern more financial instead of non-financial information. However, It would be good if the annual report, both financial and non-financial information should be systematically available online with priority on financial information with the amount and some disclosure information”*(ZP-01).

In other words, the *zakat* payers would like to have details information in this section and most importantly it is accessible to the public. Apart for that, the detail for non-financial information is further discuss for instance the awareness issue and *zakat* knowledge onto *zakat* payers, *zakat* personnel and *zakat* recipients, mechanism in reaching *zakat* recipients as well as *zakat* payers.

### *5.2.1 Issues of creating awareness and zakat knowledge onto zakat payers, zakat personnel and zakat recipients*

In terms of giving awareness and providing knowledge to *zakat* payers, all the participants opined that the *zakat* institutions should give more attention on creating more awareness and *zakat* knowledge among the business *zakat* payers rather than individual or personal *zakat* payers, as they said, *“generally in Malaysia not much issue on individual/personal zakat payers in terms of awareness and knowledge, as zakat is a must, however for business income zakat institutions need to do something to improve the collection as well as the information on the type of zakat and issue on zakat income”*(ZP-01 and ZP-03). In addition, different ways should be used to build *zakat* knowledge among the variety of *zakat* payers, *“Different media can be used to create awareness which is suitable to many categories of zakat payers”* (ZP-02).

While awareness towards *zakat* officers, the participants are concerned pertaining to awareness programme of *zakat* officers’ specifically on training on recording, reporting and auditing aspects; the *zakat* officers should be up to date with the current issues in accounting, as the participants said, *“They should be equipped with the latest development in accounting i.e. reporting, recording and auditing aspect. The reporting is still not standardized among the states”* (ZP-03).

Furthermore, awareness onto *zakat* recipients, they pointed out an interesting view, whether the potential and existing *zakat* recipients are aware on the procedure for application of *zakat* as well as understand the whole process. As the participant stated, *“The issue is to make sure the people who actually deserve to receive it are*

*aware of the procedures to get the zakat money in a more convenient manner. Convenient is in the sense that, they can access zakat institutions and the process is easier to them”, (ZP-01).*

With regards to this, the answers granted by the participants towards awareness of zakat payers revealed that there are still loopholes in their efforts, where less focus has been given to the business people to pay *zakat*. For zakat officers, it seems that having a continuous training is a must to ensure that the officers are abreast with the current demands in reporting aspect. Finally, *zakat* recipients, their concern is on providing clearer information in procedures and the whole process in applying for *zakat*. Overall, such information is still lacking in the annual report of zakat institutions.

### 5.2.2 Mechanism in reaching zakat recipients and zakat payers

Majority the participants suggested that local community participation is a suitable approach in reaching out *zakat* recipients, the participants said, *“of course the most practical way is to go to small villages’ (local community participation) imam, head of the kampung/village”, (ZP-01). “Perhaps, zakat officers can work closely with local participants, since they really know who deserve to the receive zakat money” (ZP-02).*

While, for zakat payers, they noticed in reaching this group, zakat institutions shall give more attention to business *zakat* payers group. In fact, they suggested a good idea in approaching business *zakat* payers, such as collaboration can be established between *zakat* institutions and academics as to provide an avenue in getting closer to this group. One of the participants explained, *“I suggest zakat institutions can collaborate with academics and researchers. I don’t think zakat institutions can actually go and have enough resources to approach all companies, but perhaps with academics (based on their publication etc) reaching this group can be achieved e.g. conduct seminar, workshop, conference to specific group of zakat payers i.e. corporations” (ZP-01).*

However, even though such events and activities have been done, most importantly, they have to be transparent in reporting and disclosing the information to the public. The study concerns less information was given to the public, particularly on the business *zakat* payers ‘information.

## 5.3 Governance Information

Despite the above information, another important information that being discussed is governance information such as the Board of directors participation, board composition, audit committee and internal audit involvement.

### 5.3.1 Board of Directors (BOD) participation, board composition

All of them agreed that it is a good idea for planning strategy, the involvement more professional people in the board is vital to monitor the management team in running the institutions. Nonetheless the clear role and responsibilities of the BOD have to be spelled out, to control any bureaucracy issue that may arise later. This has been explained by one of the participants *“The involvement of BOD is a good idea especially for monitoring purposes and they have to ensure that the management of zakat institutions are more efficient and effective. On the other hand, they have to be careful if their role just adding bureaucracy which at the end will defeat the purposes” (ZP-01).* It is crucial since it involves public money and indeed one of the participants suggested to include non-government organizations (NGOs) as the representative of zakat recipients in the board, *“It could of member NGOs to be in the board, one of the representative of zakat recipients, representing each asnaf (3 asnaf represent one NGO)” (ZP-02).* As far as board composition is concerned, all of them having similar idea, where they pointed out that it is really important to have board members in different fields and areas to ensure the effectiveness of the board. The comment received *“Yes, generally different educational background would be beneficial as long as all board members are kind of open minded and remember their role they are supposed to play” (ZP-01).*

### 5.3.2 Audit committee and internal audit participation

In term of Audit committee participation, they believed having audit committee involvement in managing zakat institutions is important as it will improve the corporate governance practices. However, certain issue need to be addressed for instance the structure of the zakat institutions, one participant commented that, *“Audit Committee is needed if the function of the zakat institutions as a corporation, however for certain states that do not function as corporation yet, and sudden introduction for this type of governance may not be advisable since other factors need to be considered”, (ZP-01).* Apart from that, the participant added, *“certain states still far behind in terms*

*of the financial accounting and suddenly we introduce/ bring in this idea, I nearly worried they will shock and they might not be ready”, (ZP-01).*

Beside audit committee, without exception another important aspect; internal audit participation is also being highlighted to the participants. Having the same nation, all of them agreed on this aspect, where it is good to have internal audit participation, nevertheless, the issue of having enough resources as well as the effectiveness need to be further examined. This idea was raised by participants, *“for the Internal audit, we have to take into account whether, do they have enough staff to do financial accounting, auditing etc. If there is a small number of staff we can’t relied on internal audit, we have to rely on external audit” (ZP-01).* *“Yes I would prefer that zakat institutions shall have internal audit committee rather than audit committee. The roles more towards compliance to internal control, standard of procedures (SOP), whether they follow or not, we have to check on the effectiveness of the procedures etc.” (ZP-02).* In sum, it reveals that information related to corporate governance is really crucial by zakat institutions and a proper disclosure has to be proposed.

## 6.0 CONCLUSION

In a nutshell, the current disclosure practices among zakat institutions need to be improved. With regard to financial information, less or minimal information has been reported, in fact a proper disclosure on planning and strategy have been suggested to deal with the issue of huge balance of zakat collection at the end of the year. For instance introducing with a good database to keep record all the asnaf and potential asnaf information etc. so that the fund can be disbursed as soon as possible with updated information.

In term of Non-financial information aspect, the participants demand for details information especially on the activities being conducted by the zakat institutions towards its payers and recipients. Furthermore, the study concludes that the efforts and initiatives by the *zakat* institutions to ensure the *zakat* payers, *zakat* officers as well as *zakat* recipients aware and have knowledge on *zakat* matters are encouraging. However, the expectation of *zakat* payers towards *zakat* institutions in being transparent on certain information appear to be minimal, especially on business *zakat* payers’ part. The accounting knowledge of *zakat* officers as well as the procedure to apply for *zakat* by the *zakat* recipients. The participants also described quite attractive findings, where most of them suggested that zakat institutions have to build a network and collaboration with higher leaning institutions so that it able to reach zakat payers. On the other hand, local participation have been recommended by them in order to reach zakat recipients.

Corporate governance information have been seen as vital elements to be disclosed in the annual report of the zakat institutions. All of them portrays the importance of having detail governance information such as board participation, board composition, audit committee and internal audit participation.

With regards to accountability, the *zakat* payers perceive that efforts to improve the current practices are needed. In sum, the study believes that the issue of accountability of *zakat* institutions in disclosing *zakat* information is still questionable as mentioned in the introduction section.

As far as disclosure issue is concerned, the study notices, the zakat institutions’ operation in Malaysia are restricted to the Islamic enactment in each state, since the Islamic affairs falls under state matter, as well as decisions made by the *state ruler* and *fatwa council on Islamic affairs*, these factors are indirectly shape the disclosure practices among the states. As a result, it would be in absence of standardization of disclosure practices among the zakat institutions in Malaysia. Henceforth, to get better understanding as well as balance views pertaining to this issue, the study recommends it can be further examined by inviting zakat managers to explain this matter from zakat institutions perspective. Therefore, questions raised by the public and the factors or reasons behind all these can be further explored and explained.

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