

A STUDY OF DISCLOSURE PRACTICES AND  
ACCOUNTABILITY OF MALAYSIAN  
ZAKAT INSTITUTIONS

BY

RAEDAH SAPINGI

A dissertation submitted in fulfilment of the requirement for  
the degree of Doctor of Philosophy (Accounting)

Kulliyyah of Economics and Management Sciences  
International Islamic University Malaysia

JULY 2020

## ABSTRACT

The current study aims to investigate the accountability on the disclosure of zakat institutions (ZIs) through their annual reports. This study is motivated by the findings from previous studies regarding inadequate information disclosure by ZIs especially information on zakat disbursement as had been raised by the zakat payers (ZPs) and zakat recipients (ZRs). This has sparked public debates regarding the accountability and transparency of ZIs in disclosing zakat information, especially for public viewing. The issue further rose as there is an asymmetrical of information exists among the agency parties representing the ZIs i.e. the zakat managers (ZMs), ZPs, and ZRs as discussed in the past literature. As ZIs fall under the jurisdiction of the states, the current study believes that the issue emerged due to the inconsistencies of disclosure practices among the institutions. In light of this gap and limited studies regarding this area; the study intends to explore deeper disclosure practices in ZIs' annual reports by asking the opinions of agency parties and to propose a zakat disclosure index known as *i-ZkDI*. Additionally, the current study is also interested in identifying the expectations from panel of experts with respect to the adequacy of disclosure by ZIs. A sequential exploratory mixed-method approach and content analysis of ZIs' annual reports were employed. Findings from the interviews conform the existence of asymmetrical information among the agency parties. On the contrary, the ZMs opined that the reports prepared are sufficient although they acknowledged it needed improvements. In the second phase, through the Delphi technique, a total of 96 disclosure items with five categories were agreed and confirmed by the panel of experts. The financial information category emerged as the top-rated category with the highest mean score accorded by the panel members. In the final phase, the content analysis showed that the extent of the ZIs' disclosure is still insufficient. Therefore, it is evidenced that the ZIs' disclosure of zakat information via annual reports are still inadequate, hence suggesting the impairment of accountability. This study contributes to the body of knowledge on the accountability of religious institutions, specifically on ZIs' disclosure with annual reports. Further, it also enriched the knowledge on Accountability from an Islamic perspective and Agency theory in the context of zakat disclosure, in general. The study recommends the authority to establish a central body to govern the zakat affairs in the country, and form a standardised or common reporting practices among the states. It is hoped with these taken into consideration, it would entail better disclosure practices of zakat institutions in Malaysia.

## خلاصة البحث

تهدف هذه الدراسة إلى تقييم مسؤولية مؤسسات الزكاة في الإفصاح عن أنشطتها من خلال الكشف عنها في التقارير السنوية . تحفز هذه الدراسة نتائج الدراسات السابقة بشأن عدم كفاية المعلومات من قبل مؤسسات الزكاة خاصة بشأن معلومات صرف الزكاة كما أثارها دافعوها و مستلميها. أثار هذا الموقف نقاشات عامة حول مسؤولية وشفافية مؤسسات الزكاة في الكشف عن معلومات الزكاة ، وخاصة للعرض العام .تصاعد الموضوع بوجود معلومات غير متماثلة بين أطراف الوكالة التي تتمثل مؤسسات الزكاة ، أي المدراء و الدافعين و المستلمين كما نوقشت في الدراسات السابقة . ونظرًا لأن مؤسسات الزكاة تندرج ضمن اختصاص الولايات ، تعتقد الدراسة الحاليه أن المشكلة نشأت بسبب تضارب ممارسات الإفصاح بين المؤسسات .وإدراكًا لهذه الثغرة والدراسات المحدودة هذا المجال ، تعتمزم الدراسة استكشاف ممارسات الإفصاح الأعمق في التقارير السنوية لمؤسسات الزكاة عن طريق سؤال آراء أطراف الوكالة واقتراح لدراسة مدى كشف تقارير أنشطتها . بالإضافة، الدراسة مهتمه **i-ZkDI** مؤشر الكشف عن الزكاة المعروف باسم بالتحقق إذا كانت توقعات لجنة من الخبراء مماثلة بالنسبة إلى الإفصاح من جهة مؤسسات الزكاة. تم تطبيق نهج استكشاف تسلسلي مختلط الطريقتين وتحليل محتوى التقارير السنوية لمؤسسات الزكاة. وتؤكد نتائج المقابلات وجود معلومات غير متكافئة بين أطراف الوكالة. و على العكس ، رأي مدراء الزكاة أن التقارير التي تم إعدادها كافية على الرغم من اعترفهم أنها بحاجة إلى تحسينات. في المرحلة الثانية ، من خلال تقنية دلفي ، تم تأكيد ما مجموعه 96 عنصر إفصاح مع خمس فئات من قبل فريق الخبراء. برزت فئة المعلومات المالية باعتبارها الفئة الأعلى تصنيفًا بأعلى متوسط درجة منحه أعضاء الفريق. و في المرحلة الأخيرة ، أظهر تحليل المحتوى أن مدى إفشاء مؤسسات الزكاة لا يزال غير كاف. لذلك ، من الواضح أن إفصاح مؤسسات الزكاة للمعلومات عن طريق التقارير السنوية لا تزال غير كافية ، مما يشير إلى ضعف المسؤولية. تسهم هذه الدراسة في مجموعة المعرفة حول مسؤولية المؤسسات الدينية ، وتحصوياً حول إفصاح مؤسسات الزكاة للتقارير السنوية. وكذلك ، إثراء المعرفة بشأن المسؤولية من منظور إسلامي ونظرية الوكالة في سياق الإفصاح عن الزكاة بشكل عام. توصي الدراسة السلطة لإنشاء هيئة مركزية تحكم شؤون الزكاة في البلد ، وتكوين ممارسات إبلاغ موحدة أو مشتركة بين الولايات. ومن المأمول أن تؤخذ التوصيات في الاعتبار أفضل ممارسات الإفصاح لمؤسسات الزكاة في ماليزيا.

## APPROVAL PAGE

The dissertation of Raedah Sapingi has been approved by the following:

---

Sherliza Puat Nelson  
Supervisor

---

Siti Normala Sheikh Obid  
Co-Supervisor

---

Siti Alawiah Siraj  
Internal Examiner

---

Jamaliah Said  
External Examiner

---

Ram Al Jaffri Saad  
External Examiner

---

Mohamed Elwathig Saeed Mirghani  
Chairman

## DECLARATION

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

Raedah Sapingi

Signature: ..... Date: .....

**INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA**

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF  
FAIR USE OF UNPUBLISHED RESEARCH**

**A STUDY OF DISCLOSURE PRACTICES AND  
ACCOUNTABILITY OF MALAYSIAN ZAKAT INSTITUTIONS**

I declare that the copyright holders of this dissertation are jointly owned by the student and IIUM.

Copyright © 2018 (Raedah Sapingi) and International Islamic University Malaysia.  
All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Raedah Sapingi

.....

Signature

.....

Date

## ACKNOWLEDGEMENTS

In the name of Allah, the most Gracious and the most Merciful, Lord of the universe. Peace and blessing be upon Prophet Muhammad (PBUH).

Alhamdulillah all praises be upon Allah (s.w.t) for granting me the strength, courage, and good health in carrying out and completing this thesis against all the odds. Thank you Allah (s.w.t).

I am grateful for the chance to pursue my PhD study that focuses on the zakat area. I know this is a long and lonely journey and it is not an easy task, but despite the hurdles and challenges that I have to face, the fact is I tremendously appreciate and enjoy these great moments. I am really fortunate to be surrounded by wonderful and supportive people in my life. Therefore, I would like to take this opportunity to express my appreciation and thankfulness to good and kind-hearted people whom I have encountered throughout my PhD journey.

First and foremost, I am highly indebted to my supervisors Associate Professor Dr. Sherliza Puat Nelson and Associate Professor Dr. Siti Normala Sheikh Obid for their continuous supervisory guidance, support, encouragement, and patience throughout my journey. Million thanks go to all participants, questionnaire respondents, the experts who validated my work both from the industry and academic field, the Delphi panel members, management, as well as the staff of zakat institutions in Malaysia for their cooperation, involvement, and participation in the research. I am also obliged to the Universiti Tenaga Nasional (UNITEN) and the government of Malaysia, particularly, the Ministry of Higher Education, for granting me financial assistance and study leave. The support from the Department of Accounting and Finance including the College of Business Management & Accounting of the UNITEN is kindly acknowledged. A special thank also goes to members of the Department of Accounting, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia (IIUM) for their administrative and moral support.

Last but not least, my heartfelt gratitude to my beloved husband, Dr. Mohammed Idris, my adorable mother, Pn. Rohani, my father, En. Sapingi and my late mother-in-law Pn. Ektifa Weli for their patience, support, and trust, who had sacrificed a lot in ensuring my journey reaches to the end, and continuously encourage and inspire me with their love and prayers. Also my very special thanks to my lovely siblings Junaidah, Yacob, Intan, Nor Affandi and all family members who have provided moral support for me to complete this thesis. Finally, to all my friends from UNITEN for their trust and confidence in me. It is my utmost pleasure to dedicate this thesis to these great people who granted me the gift of their inexhaustible belief in my ability to accomplish this mission.

# TABLE OF CONTENTS

Abstract .....	ii
Abstract in Arabic .....	iii
Approval Page .....	iv
Declaration .....	v
Copyright .....	vi
Acknowledgements .....	vii
List of Tables .....	xiv
List of Figures .....	xvii
List of Abbreviations .....	xviii
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Introduction.....	1
1.2 Background of Zakat .....	4
1.2.1 Zakat Institutions in Malaysia .....	8
1.3 Problem Statement.....	11
1.4 Objectives of the Study.....	15
1.5 Significance of the Study.....	16
1.6 Organisation of the Study .....	17
<b>CHAPTER TWO: DEVELOPMENT OF MALAYSIAN ZAKAT ADMINISTRATION AND FINANCIAL REPORTING OF ZAKAT INSTITUTIONS.....</b>	<b>21</b>
2.1 Introduction.....	21
2.2 History of Zakat Administration in Malaysia.....	21
2.2.1 Pre-Independence Period .....	22
2.2.2 Post-Independence Period .....	23
2.3 Development of Zakat Administration in Malaysia .....	26
2.3.1 The Collection of Zakat in Malaysia .....	27
2.3.1.1 Issues on Reporting of Zakat Collection .....	29
2.3.2 Zakat Disbursement in Malaysia .....	32
2.3.2.1 Issues Pertaining to Zakat Disbursement .....	33
2.4 The Structure of ZAKAT INSTITUTIONS .....	38
2.5 Classification of ZAKAT INSTITUTIONS .....	41
2.6 Financial Reporting Practices of SIRCS and Zakat Institutions.....	43
2.7 Conclusion .....	45
<b>CHAPTER THREE: ACCOUNTABILITY AND DISCLOSURE PRACTICES OF ZAKAT INSTITUTIONS.....</b>	<b>47</b>
3.1 Introduction.....	47
3.2 Development of Zakat Accounting Practices in Islam .....	47
3.2.1 Stage 1: Zakat Accounting based on the <i>Qur'an</i> and Hadith .....	48
3.2.2 Stage 2: Zakat Accounting Practices During the Period of the Prophet (s.a.w) and the Caliphs/( <i>Khalifah</i> ).....	49
3.2.3 Zakat Accounting Practices in the Early Islamic Period .....	51



3.3 Accountability and Transparency: An Overview .....	52
3.3.1 Accountability and Accounting Practices by Religious Institutions/ Organisations.....	56
3.3.1.1 Accountability from an Islamic Perspective.....	59
3.4 Disclosure: A Review .....	62
3.4.1 Disclosure Studies on Corporate Sectors.....	62
3.4.2 Disclosure Studies on Non-Profit Organisations (NPOs).....	64
3.4.2.1 Disclosure Index and Accountability .....	64
3.4.3 Disclosure from an Islamic Perspective .....	69
3.4.3.1 Disclosure Studies on Islamic Organisations and Zakat Institutions.....	71
3.5 Conclusion .....	80

#### **CHAPTER FOUR: THEORETICAL AND CONCEPTUAL**

<b>FRAMEWORK.....</b>	<b>83</b>
4.1 Introduction.....	83
4.2 Theoretical Framework and Background of the Conceptual Framework.....	84
4.2.1 Accountability Concept from an Islamic Perspective .....	86
4.2.1.1 Islamic Accountability Concept and Its Relation to Zakat .....	89
4.2.2 Agency Theory (AT) .....	92
4.2.2.1 Agency Theory and Its Relation to Islamic Perspective in Zakat Context .....	97
4.3 Conceptual Framework from Islamic and Conventional Perspective.....	112
4.4 Conclusion .....	116

#### **CHAPTER FIVE: RESEARCH METHODOLOGY .....**

<b>117</b>	<b>117</b>
5.1 Introduction.....	117
5.2 Research Paradigm .....	117
5.3 Research Design .....	120
5.4 First Phase of the Research Design: Qualitative Method .....	126
5.4.1 Type/Approach of Qualitative Research: Basic Interpretive Qualitative Research.....	127
5.4.2 Data Collection Method: Semi-Structured Interview .....	128
5.4.3 Sampling Strategy: Non-Probability Sampling (Purposive Sampling).....	128
5.4.3.1 Preliminary Steps Prior to Purposive Sampling and Basis of Sampling .....	129
5.4.4 Data Collection Process .....	132
5.4.4.1 Pilot Interview and Interview Process .....	134
5.4.5 Data Analysis Procedure.....	135
5.4.6 Quality of the Interview Findings.....	136
5.4.6.1 Internal Validity (Credibility) .....	136
5.4.6.2 Qualitative Reliability (Consistency or Dependency) .....	137
5.4.6.3 External Validity/ Generalisability or Transferability .....	138

5.4.6.4 Ethics .....	138
5.5 Second Phase: Quantitative Study (Survey Questionnaire).....	139
5.5.1 Delphi Exercise.....	139
5.5.1.1 Delphi Experts - Selection of The Delphi Panels Members .....	143
5.5.2 Development of Zakat Disclosure Index ( <i>i</i> -ZkDI) .....	146
5.5.2.1 Stage 1: Identification of Potential Information Items.....	147
5.5.2.2 Stage 2: Developing the Survey Questionnaire .....	149
5.5.2.3 Agreement and Verification of the Information Items.....	155
5.5.2.4 Stage 4: Determination of the Scoring Procedure.....	155
5.5.2.5 Finalisation of the Disclosure Index.....	158
5.6 Third STAGE: Content Analysis.....	159
5.6.1 Sample of Annual Reports and Bulletins.....	159
5.7 Conclusion .....	164

## **CHAPTER SIX: QUALITATIVE RESEARCH METHOD FINDINGS**

### **AND DISCUSSION ..... 165**

6.1 Introduction.....	165
6.2 Accountability on the Current Disclosure Practices in the Annual Reports Of Zakat Institutions.....	165
6.2.1 Theme One: Inadequate Information.....	168
6.2.1.1 Minimal Information .....	169
6.2.1.2 Issue in the Reporting Aspect.....	169
6.2.2 Theme Two: Adequate Information .....	170
6.2.2.1 Detailed and Sufficient Information has been Disclosed.....	170
6.2.2.2 Trust.....	171
6.2.3 Theme Three: Dissemination of Zakat Information .....	172
6.2.3.1 Accessibility and Availability of Zakat Information.....	172
6.2.4 Theme Four: Organisational Structure of Zakat Institutions.....	174
6.2.4.1 Background of the ZIs.....	174
6.2.4.2 Political Involvement/Government Interference .....	175
6.2.5 Theme Five: Employees of Zakat Institutions.....	176
6.2.5.1 Number of Employees.....	176
6.2.5.2 Lack of Competency.....	177
6.2.5.3 Lack of Motivation.....	177
6.2.5.4 Programmes Conducted to Reach out to Zakat Payers and Zakat Recipients .....	179
6.2.6 Theme Six: Roles of The <i>Ummah</i> /Community .....	180
6.2.6.1 Outsource/Leverage/Local Participation .....	181
6.2.6.2 Collaboration with Relevant Parties.....	182
6.3 Transparency of the Annual Reports .....	183

6.3.1 Theme Seven: Demand for Detailed Zakat Information .....	184
6.3.1.1 Demand for Detailed Information .....	184
6.3.1.2 Outcome of the Programmes .....	185
6.3.2 Theme Eight: Issues Related to Non-Disbursement of Surplus Zakat Funds.....	186
6.3.2.1 Timeliness Issue .....	186
6.3.3 Theme Nine: Suggestions on How to Deal with NDB .....	187
6.3.3.1 Proper Database.....	188
6.3.3.2 Planning and Strategy in Relation to the Disbursement Period .....	188
6.3.3.3 Creativity of Zakat Institutions.....	189
6.4 Items to be Disclosed by Zakat Institutions.....	190
6.5 Summary of the Results and Discussion .....	192
6.5.1 Information Asymmetry Between the Agency Parties .....	194
6.6 Linking the Results and the Theoretical Perspective.....	197
6.6.1 Accountability Concept .....	197
6.6.2 Agency Theory .....	199
6.7 Conclusion .....	200

**CHAPTER SEVEN: QUANTITATIVE RESEARCH METHOD  
FINDINGS AND DISCUSSION: DEVELOPING A DISCLOSURE**

<b>INDEX (<i>i</i>-ZkDI) .....</b>	<b>202</b>
7.1 Introduction.....	202
7.2 Steps and Processes in the Delphi Exercise.....	203
7.3 Results of the Delphi Exercise: Necessary Items for Measuring Disclosure Levels as Agreed by the Expert Panel.....	204
7.3.1 Delphi Exercise – Results From Round One.....	205
7.3.2 Results from Round Two of The Delphi Exercise.....	212
7.3.3 Third Round Results of The Delphi Exercise.....	217
7.3.4 Final (Fourth) Round Results of the Delphi Exercise .....	218
7.3.5 Consensus on The Responses .....	219
7.3.6 Information and Disclosure Importance Agreed by the Expert Panel .....	229
7.4 Finalising the Disclosure Index of Zakat Institutions.....	240
7.4.1 Determination of The Extent of Disclosure in Annual Reports of Malaysian Zakat Institutions .....	246
7.5 Conclusion .....	246

**CHAPTER EIGHT: QUANTITATIVE FINDINGS AND  
DISCUSSIONS: THE EXTENT OF REPORTING ZAKAT  
INSTITUTIONS' ANNUAL REPORT.....**

<b>248</b>	<b>248</b>
8.1 Introduction.....	248
8.2 Scoring Process.....	249
8.3 Annual Reports and Other Relevant Sources of Information.....	249
8.4 Extent of Disclosure .....	251
8.4.1 Total Weighted Scores of Zakat Institutions' Annual Reports .....	252
8.4.2 Total Scores According to the Structure of Zakat Institutions .....	253

8.4.3 Total Scores According to the <i>i</i> -ZkDI Categories .....	255
8.4.4 Item-by-Item Scores .....	259
8.4.4.1 Items under the Background and Access Information Category .....	259
8.4.4.2 Items under the Governance Information Category .....	261
8.4.4.3 Items under the Financial Information Category .....	264
8.4.4.4 Items under the Non-Financial Information Category .....	267
8.4.4.5 Items under the Future Information Category .....	271
8.4.5 The Highest and Lowest Score for the Extent of Disclosure .....	272
8.5 Discussion .....	274
8.5.1 Results and the Theoretical Perspective .....	279
8.6 Chapter Summary .....	281
<b>CHAPTER NINE: SUMMARY, RECOMMENDATIONS, AND CONCLUSION .....</b>	<b>283</b>
9.1 Introduction .....	283
9.2 Summary and Significance of the Research .....	284
9.3 Summary of Major Results .....	287
9.3.1 The Viewpoints of the Agency Parties on The Current Disclosure Practices in The Annual Reports of Zakat Institutions in Malaysia .....	288
9.3.2 Expert Panel’s Agreement on The Zakat Information/Items To Be Disclosed by Malaysian Zakat Institutions and their Importance for Disclosure .....	289
9.3.3 Development of the Disclosure Index ( <i>i</i> -ZkDI) and the Extent of Disclosure in the Annual Reports of Malaysian Zakat Institutions .....	290
9.3.4 Discharging Accountability Through Annual Performance Reporting .....	291
9.4 Recommendations from Practice .....	292
9.5 Research Limitations .....	293
9.6 Directions for Future Research .....	294
9.7 Conclusion .....	296
<b>REFERENCES.....</b>	<b>299</b>
<b>APPENDIX I: VERSES AND HADITHS RELATED TO ZAKAT .....</b>	<b>320</b>
<b>APPENDIX II: A SUMMARY OF DISCLOSURE INDEX STUDIES (2005-2018) .....</b>	<b>323</b>
<b>APPENDIX III: COVERING LETTER OF SURVEY INTERVIEW .....</b>	<b>330</b>
<b>APPENDIX IV: CONSENT FORM.....</b>	<b>331</b>
<b>APPENDIX V: SURVEY INTERVIEW .....</b>	<b>333</b>
<b>APPENDIX VI: A SUMMARY OF POTENTIAL ITEMS AND SOURCES OF REFERENCES.....</b>	<b>334</b>
<b>APPENDIX VII: COVERING LETTER TO SURVEY QUESTIONNAIRE .....</b>	<b>342</b>

<b>APPENDIX VIII: SURVEY QUESTIONNAIRE.....</b>	<b>343</b>
<b>APPENDIX IX: MEANS AND STANDARD DEVIATIONS OF INDIVIDUAL ITEMS IN DELPHI ROUND ONE, TWO, THREE AND FOUR .....</b>	<b>355</b>
<b>APPENDIX X: ACHIEVEMENTS.....</b>	<b>357</b>

## LIST OF TABLES

Table 2.1	States' Zakat Enactments	25
Table 2.2	List of Zakat Institutions and State Islamic Religious Councils (SIRCs) in Malaysia	27
Table 2.3	Issues on Zakat Collection	31
Table 2.4	Issues on Zakat Disbursement	37
Table 2.5	Zakat Institutions and SIRCs	39
Table 2.6	Type and Constitutional Basis for Charity Law	42
Table 2.7	Procedures and Guidelines for the Preparation of Financial Statements by Zakat Institutions according to Structure	44
Table 4.1	Theories and Concepts Used in Disclosure Studies on Zakat Institutions	85
Table 4.2	Key Concepts and Terminologies: Comparison between Self-interest and ' <i>Huquq</i> '	100
Table 4.3	The Application of the Concept of <i>Huquq</i> in the Zakat Context	102
Table 5.1	Expanded Paradigm Contrast Table Comparing Five Points of View	119
Table 5.2	Summary of the Research Questions, Research Method, and Data Sources	123
Table 5.3	Criteria and Preliminary Process Prior to Conducting Purposive Sampling	130
Table 5.4	Summary of Preliminary Selection Process of Participants	131
Table 5.5	List of Participants for the Semi-structured Interview	133
Table 5.6	Composition of Delphi Panel Experts	144
Table 5.7	Summary of the processes in the development of the <i>i</i> -ZkDI	149
Table 5.8	Section in the Survey Questionnaire for Each Group	152
Table 5.9	The Summary of Comments by the Panel of Experts	154
Table 5.10	Approach in Accessing Annual Reports of Zakat Institutions	161

Table 5.11	Availability of Annual Reports of Zakat Institutions (2015 to 2016)	163
Table 6.1	Accountability on Current Disclosure Practices in the Annual Reports of ZIs	166
Table 6.2	Transparency of the Current Disclosure Practices in the Annual Reports of ZIs	183
Table 6.3	Information Items Suggested by the Participants	191
Table 7.1	A Summary of Panels' Responses	204
Table 7.2	The proposed <i>i</i> -ZkDI	205
Table 7.3	Additional Items Suggested by the Expert Panel (Round One)	210
Table 7.4	Justifications for Items Suggested by the Expert Panel (Round One)	211
Table 7.5	The Summary of Justifications for Particular Items	213
Table 7.6	Rearrangement of Items Based on the Comments in Round Two	215
Table 7.7	Additional Items Suggested by the Expert Panel Members (Round Two) and Their Justifications	216
Table 7.8	The total Number of Items Across All Four Round	219
Table 7.9	Interpretation of the Mean Scores	220
Table 7.10	Level of Consensus of Responses (Friedman ONE-WAY ANOVA Test and Wilcoxon Signed Ranks Test)	221
Table 7.11	Additional Items and Their Categories	230
Table 7.12	Frequency of Items According to the Level of Disclosure Importance and Mean Score by Category	231
Table 7.13	Items for the Proposed Index by Mean Score (in Descending Order)	233
Table 7.14	List of Information Items and Their Importance Weighting	241
Table 8.1	Types of Reports Published by the Zakat Institutions	250
Table 8.2	Range of Scores	252
Table 8.3	Total Unweighted and Weighted Scores	253
Table 8.4	Scores According to the Structure of Zakat Institutions	255

Table 8.5	Total Scores According to <i>i</i> -ZkDI Categories	258
Table 8.6	Total <i>i</i> -ZkDI Scores for Items under the Background Information Category	260
Table 8.7	Total <i>i</i> -ZkDI Scores for Items under the Governance Information Category	262
Table 8.8	Total <i>i</i> -ZkDI Scores for Items under the Financial Information Category	265
Table 8.9	Total <i>i</i> -ZkDI Scores for Items Under the Non-financial Information Category	268
Table 8.10	Total <i>i</i> -ZkDI Scores for Items under the Future Information Category	272



## LIST OF FIGURES

Figure 1.1	Total Zakat Collection in Malaysia (1991–2017)	9
Figure 3.1	Components of the Annual Report	66
Figure 4.1	Islamic Accountability Model	86
Figure 4.2	Islamic Accountability Concept in the Context of Zakat Institutions	90
Figure 4.3	Agency Theory Model	97
Figure 4.4	Agency Theory in the Context of Zakat Institutions and Its Monitoring Mechanism	111
Figure 4.5	Proposed Conceptual Framework for Disclosure by Zakat Institutions	113
Figure 5.1	Sequential Exploratory Mixed Methods Design	122
Figure 5.2	The Research Design	125
Figure 5.3	Summary of the Data Collection Process	132
Figure 5.4	Steps in Delphi Exercise	142
Figure 5.5	The Process of Developing and Finalising the Proposed <i>i</i> -ZkDI	146
Figure 5.6	Users of Zakat Information	159
Figure 7.1	Steps and Processes in the Delphi Exercise	203

## LIST OF ABBREVIATIONS

AGD	Accountant General Department
AI	Accountability Index
AT	Agency Theory
BI	background information
CZPs	Corporate zakat payers
FI	Financial Information
FRDI	Financial Reporting Disclosure Index
FRS	Financial Reporting Standards
FT	Future Information
GI	Governance Information
<i>i</i> -ZkDI	Zakat Disclosure Index
IPSAS	International Public Sector Accounting Standards
IZPs	Individual zakat payers
JAWHAR	Department of Awqaf, Zakat and Hajj/Jabatan Wakaf, Zakat dan Haji
LZS	Lembaga Zakat Selangor
MACC	Malaysian Anti-Corruption Commission
MASB	Malaysian Accounting Standards Board
MPERS	Malaysian Private Entity Reporting Standards
NAD	National Audit Department
NDB	Non-Disbursement Balance
NFI&P	Non-Financial information & Performance
NGOs	Non-Government Organisations
NPOs	Non Profit organisations
PERS	Private Entity Reporting Standards
PPZ	Pusat Pungutan Zakat
RNPOs	Religious Non Profit Organisations
SAD	State Audit Department
SIRCS	State Islamic Religious Council
SORPs	Statement of Recommended Practice
ZIs	Zakat Institutions
ZMs	Zakat Managers
ZPs	Zakat Payers
ZRDI	Zakat Reporting Practices Disclosure Index

# CHAPTER ONE

## INTRODUCTION

### 1.1 INTRODUCTION

These days, a call for greater accountability is regularly spelt out not only for the private sector but also for government agencies and non-profit organisations. Across the globe, the issue of accountability has become a public discussion as well as attracted many debates and arguments in academic literature. Currently, the issue takes prominence especially concerning the government and non-profit organisations as their primary objective is not related to profit motives.

Within the context of government agencies in Malaysia, one specific part of State Islamic Religious Councils (SIRCs), i.e., Zakat Institutions (ZIs), have been receiving substantial attention and facing pressure from the public especially the Muslim community. As one of the faith-based religious institutions, ZIs are responsible for handling millions of public money collected from the Zakat Payers (ZPs), which later to be disbursed to qualified<sup>1</sup> Zakat Recipients<sup>2</sup> (ZRs). The Muslim community nowadays demands transparent zakat information on how the money is spent, as many reports produced by local media have criticised ZIs in terms of accountability in managing the institutions, for example, embezzlement of public funds and misconducts, as claimed by Rosnia, Khaled, and Doaa (2018), Noorlaila, Roshayani, and Norzaihan (2013), Suraya (2011, August 7), Utusan Malaysia (2011,

---

<sup>1</sup> Those who receive zakat according to the individual state *fatwa* council.

<sup>2</sup> Used interchangeably with the term *asnaf*.

December 29), Hadzlihady (2017, May 9), and Audrey (2017, May 16). The accountability and transparency of ZIs in reporting their activities are questioned further following a wide media coverage on issues such as misuse of zakat funds by zakat employees, incidences of poverty, and failure of ZIs in preparing financial statements (Abd Halim, Mohamed Saladin, Rozman, Siti Mariam, & Rashidah, 2015; Ram Al Jaffri, 2011). Moreover, Hairunnizam, Sanep, and Radiah (2010) revealed that one of the reasons that ZPs prefer to pay their zakat directly to the beneficiaries is due to the lack of information provided by ZIs, especially on zakat disbursement. It indirectly portrays inadequate dissemination of information to the public and the existence of an information gap among the users. From one perspective, the study notices that these criticisms are useful in the context of improving the ZIs' performance, but at the same time, it may eventually undermine public confidence and create a negative perception towards the ZIs.

In response to these concerns, essential efforts have been made by responsible authorities such as the National Audit Department<sup>3</sup> (NAD) towards improving the reporting practices, accountability, and transparency through higher disclosure by public sector agencies. One of the initiatives is creating a ranking system using the Accountability Index (AI) in 2007 to standardise the scoring system across the entire government agencies ([www.audit.gov.my/](http://www.audit.gov.my/)). The issue has also caught the attention and concern of the Accountant General Department (AGD). It is important to acknowledge that apart from NAD and AGD, the Malaysian Accounting Standards Board (MASB) also plays a vital role in consideration of the preparation of the

---

<sup>3</sup> Malaysian Supreme Audit Institution is responsible for evaluating the management performance of all ministries, departments, and autonomous entities at the central, state, and local governments in Malaysia.

financial statements of SIRC's as well as the ZIs. This is because the MASB has issued Malaysian Private Entities Reporting Standards (MPERS) that applies to private entities in Malaysia and came into force on 1<sup>st</sup> of January 2016 replacing Private Entities Reporting Standards (PERS) that was used previously<sup>4</sup>. As ZIs are under the purview of SIRC's, the issuance of the AI and MPERS would probably affect the reporting and disclosure of SIRC's especially the ZIs.

In ensuring the accountability of ZIs in reporting their activities, the content of annual reports is essential to be observed (Rosnia et al., 2018). Hence, the study intends to assess the accountability of ZIs in reporting their activities by investigating their current disclosure practices, proposing a disclosure index for Malaysian ZIs, and examining the extent that they discharge their accountability via the annual reports. This is achieved by exploring the opinions of agency parties (zakat managers<sup>5</sup> (ZMs), ZPs, and ZRs) with respect to ZIs' disclosure practices, identifying the expectations on information necessary for disclosure, and eventually determining whether the disclosure expectations as proposed and agreed by the agency parties (represented by the Delphi experts) are met in discharging ZIs' accountability via the annual reports.

Previously, many literature works on zakat in Malaysia highlighted various issues pertaining to zakat administration such as zakat collection, disbursement aspect, governance and human resources mechanisms. However, few empirical works have been found in discussing the aspect of reporting accountability specifically in disclosure practices. Nevertheless, the study notices that Muslim scholars have initiated efforts in this area. Many studies are still lacking in terms of providing

---

<sup>4</sup> Some of the ZIs adopted PERS in preparing the financial statements.

<sup>5</sup> Representing zakat officers, accountants, internal auditors, and zakat executives.

comprehensive discussions on this issue. Unlike the rest, this study explored, adopted mixed method approach, dealt with matters concerning zakat parties/experts by inviting them as participants, and considers the structures of ZIs (details in Chapter Two). The study believes it is essential to explore these aspects in order to provide a better understanding of the ZI disclosure field. Thus, the current study provides empirical evidence on how accountability in the context of ZIs' disclosure practices is operationalised. Most importantly, it contributes to the knowledge of ZIs' accountability disclosure practices by considering the agency parties' opinions and the structures of ZIs.

This chapter commences by providing the background of the study. It begins with an overview of zakat, highlighting its importance as one of the religious obligations, as well as providing its definitions and objectives, supported by verses from the *Qur'an* and hadith<sup>6</sup>. Then, it continues by describing ZIs in the Malaysian context covering their history and structures. Next, the problem statement that consequently leads to the research questions and objectives of the study is discussed. Finally, the significance of the study is highlighted and the overall structure of the study is explained.

## **1.2 BACKGROUND OF ZAKAT**

Zakat is one of the five pillars of the Islamic faith that aims to secure the socio-economic welfare of the poor and needy. Sabahaddin (1989, p.101) described zakat as a compulsory payment that is levied on members of the Muslim community to transfer

---

<sup>6</sup> The practices and sayings of Prophet Muhammad (s.a.w).

the surplus wealth and earning from the comparatively well-to-do-members to the destitute and the needy. The term Muslim is further described as a person, including individuals and businesses, where every wealth created and every income received is subjected to zakat. It does not specifically refer to only individuals, but also includes business wealth inclusive of sole proprietorships, partnerships, and corporations that fulfil zakat conditions. From the economic lens, every Muslim, whose specified wealth meets certain conditions as prescribed by the Islamic *Syariah* is obliged to spend part of their wealth to the people who are eligible to receive zakat, i.e., *asnaf*<sup>7</sup> (Abdul Rahim, 2005). This mandatory obligation is evidenced in the *Qur'an* and hadith as the following:

“O ye who believe! Give of the good things which ye have (honorably) 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 Allāh is Free of all wants, and worthy of all praise.”(Al-Baqarah: 267)

“And be steadfast in prayer, practise regular charity, and bow down your heads with those who bow down in worship.” (Al-Baqarah: 43)

“Whereas Prophet (s.a.w) urged us to pay zakat on products that we offer for sale.” (Narrated by Abu Daud)

Muhammad (1980) as cited by Abdul Rahim (2007) provided a more detailed description of zakat. The term *zakat* can be best explained in three different connotations: linguistic, theological, and legal aspects. The former perspective describes zakat as a process of purification and sanctification of the heart from dirt. It also refers to praise, growth, and increase. The theological aspect portrays that the implication or consequence of practising zakat is spiritual purification, while from the

---

<sup>7</sup> Zakat recipients/beneficiaries

legal aspect, zakat signifies the transfer of ownership of an individual or individuals' specific wealth under certain fulfilled conditions. In other words, fulfilling such an obligation not only purifies one's wealth but also creates a more balanced socio-economic wealth, thus reduces the gap between the rich and the poor, allowing them to live in harmony and most importantly achieve *mardhiyatullah* (blessings of Allāh). In essence, this has been reminded by our Prophet Muhammad (s.a.w)<sup>8</sup> in his last memorable speech. The sermon was delivered on the Ninth Day of *Dhul-Hijjah*<sup>9</sup> 10 A.H. in Mecca<sup>10</sup>. Below are the related Qur'anic verse and the speech of the Prophet (s.a.w), respectively:

“Behold! Worship your Lord; offer prayers five times a day; observe fast in the month of Ramadhaan; pay readily the Zakat (poor due) on your property; and perform pilgrimage to the House of God and obey your rulers and you will be admitted to the Paradise of your Lord.”

This fundamental obligation of Muslim plays a vital role in the Islamic economy as well as being one of the essential economic tools to relieve poverty among members of the *ummah*<sup>11</sup>. Therefore, zakat is able to reduce the inequality and unfairness of income distribution, expand the circulation of wealth in society, reduce the gap between poor and rich people, provide social security, and minimise unemployment, with the end result of achieving economic stability and economic development of the *ummah* in the long-run (Norma & Naziruddin, 2013; Mohammed & Sorfina, 2012; Patmawati, 2009). Moreover, zakat grants a balanced economic

---

<sup>8</sup> Islamic expression used whenever the name of Prophet Muhammad is mentioned.

<sup>9</sup> A month in the Islamic calendar.

<sup>10</sup> The holiest city of Islam, located in Saudi Arabia.

<sup>11</sup> Muslim community.