
TOWARDS DEVELOPING A DISCLOSURE INDEX FOR MALAYSIAN ZAKAT INSTITUTIONS

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ABSTRACT

In view of understanding zakat reporting practices, this paper aims to develop a Zakat Disclosure Index (ZkDI) for Zakat Institutions (ZIs) in Malaysia. This is due to the finding of previous studies that highlighted zakat payers' dissatisfaction on the insufficient information especially on zakat distribution part. The paper uses holistic accountability concept as a conceptual lens in developing the index. In developing the index; this paper starts by reviewing past literature and conducting semi-structured interviews with zakat payers and recipients. Which then, it is reconciled and validated by a panel of experts to obtain the final ZkDI. Based on the discussions with the respondents, the results indicated that the institutions shall give more emphasis especially on financial and non-financial categories in their reporting as to ensure accountability is discharged effectively and consequently the religious obligation is fulfilled. A suggestion that annual report of zakat institutions shall be disclosed to the public was another interesting findings revealed in this paper. Since the paper focuses solely in Malaysia, thus applicability of the ZkDI to other Muslim countries which have different laws and regulations needs to be further examined. For future research, there is a possibility that the index can be improved by inviting more respondents to participate and eventually a better disclosure index can be created.

Keywords: Disclosure index, zakat institutions, accountability, reporting practices

INTRODUCTION

Zakat (Islamic tax) is one of the five fundamental pillars of Islam, which specifies that an individual Muslim is obliged to pay *zakat* with certain preconditions. This religious obligation has been addressed about 82 times in Holy Quran (Azizah and Abd Halim, 2009). It is also clearly affirmed that the zakat funds collected should be distributed to the specified groups of recipients by *Amil* (administrator) in this case; Zakat Institutions (ZIs). These specified groups of zakat recipients have been clearly stated in the Holy Quran, (*At-Taubah 9:60*):

“Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom”

In relation to the above, it portrays that ZI is accountable to distribute the funds to all the eight eligible groups of recipients known as *asnaf (al-mustahiqqin)*. Nonetheless, many doubts have been raised in past literatures about efficiency of the ZI in discharging its accountability. For example Hairunnizam et al., (2009), pointed out one of the main reasons for dissatisfaction of zakat payers towards ZI was due to the issue of inefficiency of distribution methods and lack of information being published on zakat distribution by ZI. Insufficient information highlighted previously shows there is a possibility of accountability issue and quality of reporting exists. As stated in Holy Quran, the believers are required to keep records and reports of transactions, (*Al-Baqarah 2:282*)

“O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing Let a scribe write down faithfully as between the parties: let not the scribe refuse to write: as Allah Has taught him, so let him write....”

From the Islamic perspective, providing accounting information is vital to the *umma* (Muslim community), as they have their own right to be acknowledged about the implication of the activities of an

organization on its well-being as well as giving advices on how this has been achieved in accordance with *syariah (Islamic Law)* requirements (Lewis, 2006). He further clarified that accountability to Allah SWT by means of producing and establishing information that is freely available (Lewis, 2006).

Hence, one of the methods that can be used to measure information disclosed by organizations is via disclosure index (Saunah et al. 2012). Many past studies have developed and used index to measure the annual report and reporting practices of variety of organizations specifically non-profit type; such as Coy & Dixon (2004), Saunah et al. (2012), Hooks et al. (2012), Wei et al. (2008) and so forth. Marston & Shrivs (1991) described "*disclosures indices are extensive lists of selected item which may be disclosed in company report*".

Background of the study

These days a call for greater accountability is regularly voiced especially for companies, government sector and non-profit organizations. It becomes critically prominent to the government and non-profitable organization since its objectives is not for profit motives and the fund may easily be misused by anyone in the organizations. The concept of accountability is a basic element of management and governance of any organizations (Cameron, 2004). As described by Gray et al. (1996), stated accountability as "*the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for one is held responsible*"

While Robert and Scapens (1985) saw accountability as a relationship involving "*giving and demanding of reasons for conduct*". Generally the concept covers the relationship between accountant and accountee (Gray and Jenkins, 1993 Abdul Rahim 1998; Shahul Hameed 2000; Cameron, 2004). Although there are a lot of discussions concerning on measuring accountability, it is essential to give consideration on accounting information which focuses on disclosure, and as stated earlier one of the methods of measuring the accountability of zakat institutions is via disclosure index. Hence, this paper uses disclosure index as a proxy to measure the reporting practices which ultimately may improve the accountability and transparency of ZIs.

Currently, research on disclosure practices not only concerning corporate sector instead it has caught attention of researchers to further

investigate in Non-profit organizations (NPOs), Public Sector (PS), Non-Government agencies (NGOs) and other entities that may have similar characteristic of non-profit making motives. Disclosure of information by Non-profit organizations (NPOs) is vital due to few factors; first the information disclosed can be used by stakeholders to assess the effectiveness and efficiency of the particular organization. Secondly, it can contribute to improve stakeholder's perception, which eventually will increase the level of accountability and transparency of the organizations (Saunah et al. 2012). Despite the growth of the disclosure study on NPOs, NGOs and so forth, a little attention has been given to religious non-profit organizations (RNPOs) sector or known as faith-based organizations (Ruhaya et al.2012). In case of Malaysian RNPOs such as zakat institutions (ZIs), waqf, and mosque grant many rooms to be explored especially with regards to the disclosure aspects. One of the interesting RNPOs that can be further discovered is zakat institutions (ZIs). Currently, a lot of past literatures have discussed on the issue of zakat management in Malaysia especially on collection and disbursement system. Diverse zakat practices and lack of appropriate system on both policies and practices of zakat system among all the states in Malaysia have brought many inconsistencies in collection and distribution to the 8 qualified recipients (asnaf).

As portrayed by (Kamil 2005) ability of ZIs in managing the fund of zakat is still doubtful and questionable. This is supported by Ahmad Shahir and Adibah (2010) who discussed on the issues and challenges faced by the Lembaga Zakat Selangor (LZS), they clarified doubts of the zakat payers on the credibility of ZIs in managing the funds. They further explained that some of the zakat payers either individuals or organizations, refused to pay zakat at the institutions instead of paying directly to the eligible zakat recipients. Surprisingly, Ahmad Shahir (2007) further discovered that only 10% to 15% of the zakat payers in Selangor pay zakat through formal zakat institutions, these decisions have portrayed lack of trust by the public which eventually can jeopardize the reputation and image of ZIs.

Azman et al. (2012) addressed some of the essential issues relating to the ZIs, first on the inefficiency of distribution of zakat funds. Basically, zakat funds are distributed by the institutions to the eligible recipients based on certain criteria which are set by authority and also through a report made by a public. However, the institutions have received complaints and been criticized by the public since the funds

did not reached the targeted group of recipients and lack of knowledge on the other part of community. The complaints and dissatisfaction with performance of the ZIs arose as the authority did not publicize the zakat information. Hairunnizam et al., (2009), further added on how dissatisfaction on the performance of ZIs affects zakat payers channels in paying zakat. The result showed more than 50% of dissatisfied zakat payers did not commit to zakat payment which would may decrease the potential of zakat collection. Interestingly, the main reasons for such disappointment were due to inefficiency of distribution methods and insufficient information being published on zakat distribution by ZIs as mentioned previously.

Marston and Shrives (1991), stated information is disclosed in many ways, the main one is the annual report, other types of information for instance interim, quarterly report, prospectus, employee reports, stock exchange's announcements and other printed material. Taylor (2006), further added the avenues of reporting covers media release, mailings to citizens' groups, websites and annual reports.

The Annual Report of organizations is perceived as a vehicle of transferring the information, which be used for measurement, classification, quantification and evaluation of organization performance and position. One way of measuring the information disclosed is via disclosure index (Saunah et al. 2012). Marston and Shrives (1991), explained disclosure index has been used as research tool in a number of research papers by many different researchers from 1960s till present and clarified it would not continue to exist if it shows poor results.

In view of understanding the reporting practices of ZI, the study is prepared to propose a Zakat Disclosure Index (ZKDI) for zakat institutions in Malaysia and with the intention to assist the ZIs in preparing the report as well as provide guidelines to Jabatan Zakat, Waqf dan Haji (JAWHAR) or Department of Awqaf, Zakat and Hajj in reporting zakat information. JAWHAR was established in 2004 *“with the roles to coordinate and develop the management of awqaf and zakat as well as monitoring the management of hajj”* (<http://www.jawhar.gov.my>).

Despite that, it may also promote and suggest uniformity and harmonization between 14 ZIs in terms of disclosures of zakat information in the financial statements. As for the public, it can increase public accessibility to zakat information and encourage the

awareness of eligible Muslim to pay zakat. Finally, it may improve the image of ZIs by enhancing its accountability and regain public trust and confidence in managing the zakat funds; which eventually would foster the economic growth of Muslim community.

LITERATURE REVIEW

In Islam, wealth held by individuals should be shared with others, as all property ultimately belongs to Allah as the real owner of the wealth. Sharing the wealth between the rich and poor people in Islam is expressed in a way of paying zakat or from conventional perspective is known as tax by distributing the fund to the qualified recipients. *Surah At-Taubah (9) verse 60* has disclosed 8 specific groups of qualified recipients who are entitled to receive zakat, they are the poor - Fugara', extreme poor Muslim (al- Masakin), those employed to administer and collect (the funds)- Aamillen, those whose hearts have been recently reconciled (to truth) i.e. those who have converted to Islam, to free the captives (Ar-Riqaab), those in bondage and in debt i.e. Al-Gharimeen, in the cause of Allah (Fi- Sabeelillah), and for the wayfarer: (thus it is) ordained by Allah – Ibnu –Sabeel.

Zakat legally means, 'a prescribed amount of a specific property paid for a specific category of people'. In other words, zakat is the amount of money or its equivalent taken from a specific type of wealth that must be spent on specific categories or group of people in specific ways (pay to *amil* directly), when the particular wealth reaches a specific amount at a specific time. The obligation to pay zakat among Muslims is established in the *Qu'ran, Sunnah and hadith*, the consensus of the companions and Muslim scholars. With the objective of distributing of wealth to the less fortunate Muslim community, zakat practices would therefore be able to eradicate poverty among members of the *ummah*.

Muhammad (1980) stated that the term of Zakat can be best explained in three different connotations; which are linguistic, theological and legal aspects. The linguistic perspective describes zakat as a process of purification and sanctification of heart from dirt and it also refers to as praise, growth and increase, while theological portrays the implication or consequences of practicing zakat where it leads to spiritual purification. Finally, from legal aspect zakat signifies transfer of ownership of specific wealth to individual or individuals under

certain fulfilled conditions. In other words by fulfilling this obligation it can purify individual's wealth to earn Allah's blessing.

In Malaysia, the political structure plays a great role in the administration of zakat system in Malaysia. State Islamic Religious Councils (SIRCs) is the body responsible for administering all matters pertaining to religious affairs including zakat, and it comes under the jurisdiction of the respective state government or the respective state ruler (Sultan). Most of the states have their own council of religious affairs that administers the collection and distribution of zakat, which refers to the advice and fatwa issued by the respective SIRCs. (NurBarizah, 2007). Zakat law and its administration are governed by the federal government under (JAWHAR), which is restricted to coordinating zakat matters among the states. Most importantly, the administration of zakat operations between states, where Federal government represented by JAWHAR, plays limited roles in monitoring and coordinating zakat operations in all the states in Malaysia. Presently, each state in Malaysia formulates its own policies on zakat affairs which include method of collection, disbursement policy, administrative aspects, execution and also the degree of enforcement. As a result, Malaysia has a variety of zakat practices in collection and disbursement which eventually creates inconsistency which led to a difficulty in understanding on how zakat operations are being administered and monitored.

Previous study in Malaysia

Over the past few years academics have increased their attention on the issues of zakat management in Malaysia. Past studies (Abdul Halim et al., 2005; Ali, 1990; Azizah et al., 2005; Halidan, 2006; Ismail, 2000; Ismail, 2006; Kamil, 2005; Nurbarizah et al., 2006; Zainal Abidin, 2006) have discussed about the efficiency and effectiveness of ZIs in managing the fund in their custody. While the issue on the effectiveness of zakat disbursement system to the qualified recipients has been debated and discussed by previous studies such as (Mohd Dahan, 1998; Sanep et al., 2006; Hairunnizam et al., 2008; Hairunnizam et al., 2009; Anuar, 2008).

Hairunnizam and Radiah (2010) reported that zakat disbursement system in Malaysia shows vagueness in terms of distributing the fund to the eligible recipients. They reported that every year an average of 26% or RM145 millions of zakat proceeds were left undistributed to

zakat recipients and they were kept in the zakat institutions. According to Muhammad Syukri (2006) such problems occurred was due to several causes. He explained the institutions failed to keep track and recognize their potential zakat recipients because of the connection gap especially in terms of information between institution and zakat recipients. Hairunnizam and Radiah (2010) shared the same views that one of the ZIs had failed to recognize those who are eligible to receive zakat money. Indeed, Mujani (1995) urged that the institution should put an initiative to distribute the surplus funds to the recipients giving the priority to the needy and destitute people.

Besides the issue of undistributed fund, Hairunnizam (2009) addressed the zakat payers were not satisfied with the performance of ZIs in terms of distribution of zakat funds. The reason was that the respective institutions were not disbursing the funds fairly to all the zakat recipients including the al-riqab, ibnSabil, al-gharimun. In terms of information, another important weakness discovered is lack of data on collection and disbursement of zakat funds. Information relating to the total collection and its disbursement is considered essential to the public in evaluating the capability of ZIs in managing these funds. Nik Mustpaha (1987) highlighted that information on zakat collection and its disbursement were not all the time available. Even when some of the states revealed that information, most of them were vague and not complete. Furthermore, each state has different format in reporting the information pertaining to these and only latest figures were shown by some State Religious Councils.

Apart from that, another factor that affects the process of distributing zakat funds is due to a bureaucracy problem (Azman et al., 2012). The study discussed how the students need to make a new application every year even though they had applied for zakat funds in their first year and yet again they need to present all over again all the relevant documents as what they did earlier. Furthermore, in certain states students are initially required to apply for study loan in order to be eligible to receive zakat funds. With regards to these it will slow down the process of approval which was not practiced by Prophet Muhammad (*PBUH*). The practice and principle that should be followed is that once the zakat fund has been collected it should be disbursed as soon as possible to the eligible recipients. Hence, ZIs need to improve their disbursement process by having up-to-date register of the eligible recipients (asnafs) and a delivery system put in

place and continuously monitored. Moreover, Anuar (2008) revealed generally the public and particularly the academics preferred to pay zakat directly to the beneficiaries rather than the zakat institutions. This indirectly portrays the current practices of zakat institution shows some weaknesses and factors contribute to the issue shall be further examined. This is important especially to the zakat payers who contributed money to the trusted institutions; they need a guarantee that their money has been distributed fairly to the designated group of people.

As a result many efforts and initiatives have been implemented by the ZIs to gain public confidence such as introducing management accounting practices which include strategic planning and performance measurement. However the implementation of those initiatives is still questionable which grants a lot of spaces to be studied. (Azizah et al., 2005; NurBarizah et al., 2006; Ahmad Shahir and Adibah, 2010). Again the accountability of the ZIs in managing those funds leaves many questions to be answered.

Disclosure index

In accounting research, disclosure indices are often times used especially in studying annual reports of organizations. Marston and Shrives (1991), mentioned “*disclosures indices are extensive lists of selected item which may be disclosed in company report*”. Coy (2004), the roles of these indices are to present an insight i.e. a summary of indicator, sign, evidence and so forth to users whether the whole content of the reports prepared is comparable or an interest of certain aspect of the study is covered such as voluntary and environmental disclosure. Botosan (1997) and Cheng (1992), highlighted past literature has regarded disclosure index as a practical and valid research instrument. Coy and Dixon (2004) defined an index as:

“Numbers that encapsulate in single figures, objects in the set that one wants to measure and that are capable of measurement. Each number in a valid and reliable index is reached uniformly by determine scores for each of, possibly many component items, which have been identified as relevant to the set and purpose if the index. These component item scores are then combined in a meaningful way in order to ascertain the index number for each object in the set.”

In New Zealand, Coy and Dixon (2004) have developed a disclosure index called *Public Accountability Index (PAI)* for annual report of universities in New Zealand from 1985 to 2000. PAI is developed with the purpose to measure the quality of annual report produced by the public Universities since there was a little relevant information was revealed from universities authorities on educational and staff related aspects of university resource attraction and allocation. While Wei et al. (2008), have made a new effort by examining the reporting practices of museums in New Zealand (NZ) and the UK. Museum Performance Accountability Disclosure index (MPADI) had been developed by adapting MAD disclosure index, which then was modified to suit with the nature of the organization.

Eventually, the index was developed uses a framework which represents on the Balance score card (BSC) system. The study revealed that, Museum in the UK shows slightly a better disclosure level than NZ in terms of the total score. On top of that many of the items listed in the MPADI are not sufficiently disclosed by them which eventually portrays that the annual reports prepared showing less information. Disclosure item such as “employee satisfaction” and “budget” information showed weakness item for both NZ and UK museum. While financial review disclosure signifies the weak item for NZ reports. Furthermore, UK reports found customer satisfaction item showed the poor result of disclosure.

In the case of Malaysia, to ensure the accountability in government sector, the National Audit Department (NAD) has introduced *Accountability Index (AI)* or known as audit rating system. The index is issued for all Ministries and State treasuries starting from the year 2007. The index was developed with the objective to evaluate the quality performance aspect of all government agencies which subject to its audit. It was developed based on certain indicators and each indicator will have its own criteria. Marks will be given on each criterion and finally score rating will be awarded between score of one to four on level of accountability.

After 3 years implementation of *Accountability Index (AI)*, Faridah et al. (2010) examined the auditees’ perception on the implementation of AI in public university. They were interested to do this study since there is a plan by NAD to implement the AI at public university. A group of 116 middle and top level of staff management of the university was involved in the survey and generally most of them perceive the AI

as a good initiative for a basis of measuring performance and benefit the university in future. Apart from that Hooks et al. (2012), have put initiative by suggesting a best practice reporting performance for local government in Malaysia via disclosure index. As the assumption of the annual reports prepared are the main mechanism for discharging accountability as well as grants relevant and meaningful information to the stakeholders, the paper portrays that the best practice reporting performance demands more comprehensive on performance information which cover both financial and non-financial elements.

Another study related to the government agencies, Nurbarizah (2011), has proposed an index for federal statutory bodies (FSB) in Malaysia and found the level of compliance on disclosure of FSB is considered fair. The result portrays financial category of information that shows the highest score while governance-related information represents the lowest which indicates least information being disclosed in the annual reports of FSB. The paper also further discusses about the determinants of the disclosure level, where FSB size and accessibility have shown a positive relationship with the disclosure level, while board size was regarded as insignificant factor found in the study.

With regards to NPO/charity Saunah et.al (2012), introduced new approach in developing Malaysian Charity Disclosure index (ChDI) using stakeholder's needs. This paper uses qualitative and quantitative methods in deriving the ChDI which focuses on literature review, interviews and online survey. In assessing validity of the proposed index the study has applied two steps; at first comments, suggestion and discussion have been made with panel experts from both local and international panels which then being revised and improved before distributing the ChDI survey through web or online survey. In this process, the target participants were institutional donors from main public listed companies in the Bursa Malaysia, and finally 117 listed companies participated in the survey. The paper revealed, two categories i.e. financial information and governance information showed the highest score which indicates these are essential information needed by stakeholders of charity organization.

Generally, academics have discussed a lot on the issue on zakat management system, the ways to overcome such weaknesses are also being highlighted but very few of them discuss the reporting practices aspect as a whole in depth. Based on the above discussion, it signifies there is a limited study done on disclosure index for religious

institutions particularly for zakat institutions. Although, Saunah et al. (2012), have discussed about the disclosure levels towards improving the accountability and transparency among Religious Non-profit organizations (RNPO), but the study was concentrating on all existing religious organizations in Malaysia which are Buddhism, Islam, Christian and others (Sikhism, Daoism, Confucianism). Obviously, there is a need for disclosure index for zakat institutions which in turn will improve the image of ZIs to the public as a whole.

Accountability concept

There a rich literature on accountability concept that can be gathered from various disciplines especially in management and psychology literatures. Accountability issues especially in corporate and government sector was widely being discussed, however to the NGOs this issue was recently brought up in 1990s (O' Dwyer 2007). Ahmad (2010), highlighted within the context of NGOs accountability literature, the debates and argument mostly focus on direction of accountability, which the well-known are; notion of upward accountability and downward accountability.

Upward accountability explains efforts to improve the management through upward direction for instance reporting to funder/donor. In other words it is about accountability to donors, the party that provides funds to the NGOs which is similar to the concept of corporate accountability i.e. accountability to shareholders (Ahmad, 2010). In relation to reporting, Ebrahim (2003a), revealed that donors frequently require highly detailed quarterly and annual report on achievement from funded project and expenditure based on pre-specific line items. In addition to that he asserted certain NGOS that have multiple foreign donors; on which really concern the NGOs to comply with the auditing system of each donor. In satisfying donor's demand, he realized the end of that such effort may divert the main NGOs' focus to fulfill their responsibilities towards the beneficiaries.

Apart from that, Edwards and Hulme (1995), added there is a tendency that upward direction may distort accountability. Jepson (2005), further added that "the audit culture has failed in its goal of accountability and transparency..." He also explains, "The key to accountability regime is not an adoption of structural process such as

audit trails, or the reporting of performance measurements, but in the engagement of public constituencies in informed discussion on values, issues and strategy”. Based on the above argument, thus the idea of downward accountability is discussed below.

While downward accountability refers to the accountability to partners, beneficiaries, staff and supporters (Edwards and Hulme, 1996). Jordan and Tujil (2006) highlighted, public expectation on NGO accountability is considered related to the mission and services to beneficiaries, in other words downward accountability is “a right based approach to NGO accountability could service the public expectation”. Connecting right based approach with downward accountability provides a different view with regards to the roles and relationship between NGOs and beneficiaries. Sidoti and Frankovits (1995), discussed that this right based approach actually changed the perspective of all three parties: donors, NGOs and beneficiaries. Beneficiaries are perceived to be a right holder and not a passive group and waiting to be served anymore, while NGO is considered duty-bearer and donors are seems to be assisting supporter instead of being demanding aid giver. Due to this, combining these two categories of accountabilities is called holistic accountability.

A broaden concept of accountability is known as holistic accountability, which concentrates both short term functional accountability (privileged in upward accountability) and strategic accountability (downward accountability). Furthermore, the notion of holistic accountability is combining both views i.e. upward and downward accountability into one view, and at the same time employing both with balancing act is considered as a holistic approach. Ahmad (2010) explained holistic accountability basically “a form of accountability to a broader range of stakeholders”.

Since there are limited studies have been done in reporting practices of ZIs and considering having similar characteristics of other entities such as NGOs, NPOs and so forth, this paper has used the notion of holistic accountability in developing the index. Thus, framing both upward and downward accountability offers a new room on which zakat institutions can improve the disclosure practices as well as enhance its accountability and transparency in disclosing zakat information.

RESEARCH METHODOLOGY

Discussions on issue of disclosure of non-profit organization and mismanagement of zakat institutions have led the study to propose a zakat disclosure index (ZKDI) for zakat institutions in Malaysia. In answering the objective discussed previously, the study uses mixed mode methods, i.e. both qualitative and quantitative methods. The journey starts with how the index is developed, methods to obtain desirable list of index, method employed for data collection and the approach used to measure the index level.

Developing Disclosure index

The purpose of ZKDI is to measure the level of disclosure of zakat information in their annual report. Marston and Shrivs (1991) discussed a disclosure index as a list of selected items that has been developed using certain methods, used to measure the extents of disclosure of the company report. In developing disclosure index for Zakat Institutions, the processes of developing ZKDI involves three stages: the process of identifying the list of disclosure items this is done by reviewing past literature and conducting semi-structured interviews with the zakat payers and recipients, next is assigning weight for each item and finally assessment of validity from panel experts to obtain the final disclosure index.

First: Identifying the appropriate disclosure item

The list of items in the disclosure index was developed by examining past literature on NPOs area that particularly focused on developing disclosure index. As mentioned earlier to develop the disclosure index, identifying appropriate disclosure item was considered essential and due to that various sources of information from previous literatures as discussed above have been analysed and used to develop the index which may suit to the zakat institutions. The next process was combining the items to draft the ZkDI which consists of compilation of chosen items according to the theme.

Second: Semi structured interviews with zakat payers and zakat recipients

After the draft of disclosure index has been identified i.e. through reviewing past literature and relevant documents, it has been summarized into five categories with a total of 74 disclosure items have been in the list. Then the list of 74 disclosure items and questionnaire on semi-structured interview were prepared for both groups; three zakat payers and recipients participated in this study. Face to face interview with zakat payers and also recipients have been conducted, with the intention to get further information and ideas in identifying potential items to be in the index. The list of disclosure index were arranged according to its categories i.e. background of zakat Institutions, financial information, non-financial information, future information and governance information. The categories stated were similar to (Saunah et al., 2012,). The list of disclosure items has been given to the zakat payers and further interview discussion was carried out, while for zakat recipients only interview session was carried out, due to inadequate accounting knowledge among them. Based on the face-to-face interview session, a revised disclosure index was then prepared according to the recommendation and suggestions given by both groups.

Third: Assigning weights and assessment of validity from academics

In order to be an index, a single number that represents total scores for all information needs to be created, which means a weight for each disclosure item would be developed by referring to the level of importance of all information. To calculate the disclosure index, the items are measured based on a five-point scale (0: not at all important to 5: extremely important), which in line with the study done by (Hooks et al., 2012) which focuses on disclosure index for local authorities in Malaysia. Furthermore, some of the disclosure items might be identified more important than others by stakeholders (Saunah et al., 2012).

The draft of ZkDI was then submitted to the expert panels, in this case the accounting lecturers; those who have experience in teaching subjects which is considered relevant to the disclosure of accounting information such as auditing, zakat accounting and public sector accounting. The purpose of submitting the draft of ZkDI to this group was due to get confirmation and validation on the items prepared earlier,

that was after considering zakat payer and recipients' feedbacks and recommendations. Despite that they were also requested to participate in giving views and suggestions on the level of importance of each item. In other words, they have to rank those items according to the degree of importance using five-point scale as stated above. Assigning weight for each item in the disclosure list would determine the total score of the index. Eventually, in future the proposed ZkDI will be used to analyse the latest annual report of all 14 zakat institutions in Malaysia.

FINDINGS

The results of this paper are organized into two parts; firstly it discusses about the process of finalising the ZkDI and then the total score of each disclosure item according the importance of information is further explained. Originally there were 74 items identified in the first process and after conducting face to face interview with zakat payers, most of them agreed that all the proposed items should be included in the index, with four items were added to the existing ZkDI. The extra four items identified fell under financial and non-financial information categories. For financial information two additional items are: classification of income/zakat funds of al-mal (wealth) and list and total of disbursement according to the eight asnafs/beneficiaries. While the other two items classified under non-financial information are: criteria and detail of zakat recipients for each category of asnaf and promotion activities. These resulted into 78 items in total of new ZkDI. The extra of these four items were discovered based on the following answers given by both groups:

“In my opinion, the current reporting of Zakat institutions is lacking in terms of giving detailed information to eligible recipients and Zakat payers about Zakat funds. Mostly they only give background information on the institutions and financial information, while information concerning the non financial information is minimum. From my observations not many Zakat institutions issue annual report, for instance the state of Pahang, they just only recently started released their annual report for last year”

“I think there is a need to disclose the information pertaining to the collection and distribution of Zakat funds to the asnafs in more detail”

“The types of Zakats al-mal funds in the report were not informed. It just showed the total amount collected in the report”

Based on the above, it depicts that both zakat payers and recipients raised on issue of lack of detailed information on zakat funds, especially information on zakat collection and disbursement. In addition information pertaining to the collection and disbursement of such funds require detail disclosure. Based on these answers additional items; classification of income/zakat funds of al-mal (wealth) was added in the disclosure list. Furthermore, the study also revealed the following:

“The existing report currently is considered fair but it need improvements especially the distribution of Zakat funds. Actually as the payers we need to know and be informed where and how the funds are spent and whether it has channeled/reached to the eligible asnaf.”

“Yes, they do inform such information according to the categories in the financial statements, nonetheless we just want to know more details about the categories of Zakat recipients. In other words, different categories have different criteria; we want to know more details whether the criteria is according to the law of Shari’ah or not”

Both comments were clearly supported on the need of the item which is the list and total of disbursement according to the eight asnafs/beneficiaries as well as criteria and details of zakat recipients for each category which were added in the list.

Apart from that the last item discovered during interview session, was a result from answers given below:

“In my view LZS should carry out more promotions so that public can understand clearly on LSZ’s function, definition and criteria for recipients”

“Further explanation is needed to the public especially on the eight recipients of Zakat categories, whether or not they are eligible to receive such assistance”

The last item added in the list was on promotion activities, zakat institutions should effectively play their role in doing a lot of promotions by providing a clear view about the zakat funds especially on disbursement aspect. Having such information in the report would help both payers and recipients to have better understanding on how the funds are being distributed to the eight beneficiaries.

The third stage was on validation and assigning weight to the item in the index. One of the panel experts has suggested that two items should not be in the list (list of names of major donors/zakat payers (individual/institutions) and number of the Board of trustees. The rationale of not including names of zakat payers in the index was due to the concept of zakat itself, because having the names either individual/institutions may result in zakat being paid for the wrong reasons and intention. Number of board of trustees was considered redundant as the other information relating to the trustees has been stated in the list. As a result the ZkDI has 76 items in total. Simple analysis has been used that is descriptive statistics to identify which of these items showed relatively more important as compared to the other. Overall results portray both categories such as Financial and non-financial information have shown the items that are really essential and needed in the annual report of zakat institutions with the score of mean 4.00.

Background of zakat Institutions

Based on the answers shared by the panel experts, the findings depict the item such as name of the organizations and main activity of the institutions were contributing to the highest score for the category. While minutes of the AGM falls under the lowest score, and according to comments by the panels; the item was considered important, however, it is advisable not to disclose to the public due to the nature of the institutions which involve public funds which eventually may create an issue later on.

Financial Information Category

Financial information is vital as the information disclosed would provide idea whether the fund has been used efficiently and distributed to the zakat recipients accordingly. There are 12 items in this category that are classified under “extremely important”, this indicates an idea about how important this information shall be disclosed to the public. Especially information about the classification on collection and disbursement to the eight qualified asnaf, cashflow information and statement of zakat funds. For profit sector Cashflow is an integral part of financial statements and is one of the useful tools for measuring performance of an organization. Jooste (2006), discussed in measuring performance of companies, many researchers pointed the same views that cashflow information is a superior indicator as compared to traditional earnings. While all remaining disclosure items were grouped under “very important” and interestingly, none of them were weighed below than 3.00 score. Hence, the study concludes that all the 23 items in the financial information category are vital information and future improvement shall be done by Zakat Institutions in order to regain public confidence.

Non-Financial Information Category

Another important category in the ZkDI is the non-financial information, the findings for this category were mixed, three disclosure items were grouped as “extremely important”, 15 items regarded as “very important” and two others were categorised as “quite important”. The items that received highest scores were non-financial resources, participation in special project and criteria/details zakat recipients for each category of asnaf.

Future Information

This category shows all 8 items in the list were considered “very important” and 3 items have gained highest score; budget information, statement of future activities that benefit Zakat recipients and next year’s coming target future zakat collection.

Governance Information

The last category in the ZkDI is governance information, it is vital to have good governance information for accountability reason. In this category, only three disclosure items were grouped as “quite important” and the rest were categorized as “very important” by the panels.

CONCLUSION

The issue of accountability of zakat institutions in managing the funds has attracted a lot of attention and leaves many doubts. As the zakat institutions carry out the religious duties, it is important for them to show zakat information to the public as well as how they discharge their accountability. Claims to have a greater accountability and transparency towards improving zakat institutions performance is always spelt out. Thus, in this case, efforts in measuring the accountability via disclosure index as a special designed disclosure measurement instrument has been proposed.

The study has offered new insights in developing the index, the disclosure item has been developed based on the mixed resources; reviewing past literature, manual from JAWHAR and other sources such as brochures and pamphlet of zakat institutions, the index was further evaluated by interviewing both zakat payers and recipients which were then validated by the panel experts. Eventually the study has developed the proposed index (ZkDI) by reference to both primary and secondary information in order to have more reliable results. However, the issue is whether it is applicable to all zakat institutions? Since JAWHAR is the responsible body in coordinating zakat activities in Malaysia, hence the proposed ZkDI may be used as a reference by JAWHAR in harmonizing and standardizing the preparation of zakat reporting by zakat institutions.

Developing ZkDI has its own limitations; due to the number of the interviewees and panel experts involved in the study, and the use of researchers’ discretion on certain disclosure items, however ultimately the panel experts’ views have controls on the overall results of the study. For further research, more participants such as zakat payers and recipients should be invited to participant in the research and maybe the list of the index can be sent via website to get the number of participants desired.

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