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DEVELOPMENT OF MALAYSIAN ZAKAT ADMINISTRATION AND FINANCIAL REPORTING OF ZAKAT INSTITUTIONS

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Abstract

As one of the religious institutions in Malaysia, zakat institutions (ZIs), which responsible for handling millions of zakat payers' (ZPs) money are demanded to be accountable and transparent in reporting their activities, especially informing the Muslim community on how the zakat money is being spent. These are due to the comments raised by the public on the issues of zakat collection (such as availability of data, unofficial agencies, and human resource management) and disbursement (such as allocation of zakat money, non-disbursement balance, the inefficiency of disbursement of zakat money, zakat personnel, the inefficiency of the disbursement methods, and inadequate disclosure of zakat disbursement information). Nevertheless, how these issues affecting reporting practices via annual reports were considered lacking in many academic discussions. Although signs toward the discussions have been started however, the vital aspects of ZIs' background need to be explored before taking further steps such as discussing the reporting issues. Hence, to have better understanding of reporting practices via annual reports of ZIs in Malaysia, it is essential to explore the historical background of zakat administration that might influence the ZIs' operation and eventually their current reporting practices. Basically, this paper reviews the history, development and structure of zakat institutions (ZIs) in Malaysian context. The discussion then further highlights on the financial reporting requirements for State Islamic Religious Councils (SIRC) and ZIs, as well as providing an overview on ZIs' reporting practices.

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Keywords: Reporting practices, historical background, structures of ZIs, zakat administration.



1. Introduction

Within the context of government agencies in Malaysia, one specific part of State Islamic Religious Councils (SIRC), which is zakat institutions (ZIs), has been receiving substantial attention and facing public pressure especially from the Muslim community. As faith-based religious institutions, ZIs are responsible for handling millions of public money collected from zakat payers (ZPs), which later to be disbursed to the qualified zakat recipients (ZRs). Many past literatures highlighting the issue of accountability of ZIs in reporting their activities, as a result from wide media coverage on related issues such as the misuse of zakat funds as well as the lack of zakat information in their annual reports (Mohd Noor et al., 2015; Saad, 2011).

1.1. History of Zakat Administration in Malaysia

Zakat administration in Malaysia began in the State of Malacca during the pre-colonial period. Since Malacca was a well-known port and an international trade centre at that time, trading activities brought by Muslim traders had influenced zakat activities, which then gradually spread to the other states in Malaysia. The administration was practised until the arrival of the colonial powers (Abd Majid, 2009). The development of ZIs' administration and its implications on the practices are divided into two different phases, namely pre-colonial and post-independence period.

a) Pre-colonial period

The development of zakat administration is apparently influenced by the Malaysian history and colonisation factor, which have played a major role in shaping current reporting practices. The early history of the collection and disbursement of zakat began with farmers who paid zakat on paddy, crops, and livestock (Abd Majid, 2009). During that time, a religious teacher would act as the administrator to receive goods from the zakat payers, which he then disbursed to the asnaf or zakat recipients or beneficiaries (Aidit, 1988 as cited in Ab Rahman et al., 2012; Htay & Salman, 2014). With limited studies pertaining to the accounting records of zakat transactions in those days, it is difficult to ascertain the details; however, the likelihood is that the religious teachers recorded the transactions as money needed to be collected and disbursed to the asnaf. Furthermore, before the existence of laws concerning the administration of zakat activities and before independence, the ZPs distributed zakat directly to the asnaf or zakat recipients (ZRs) (Nordin, 2008).

With regard to the administration of Islamic matters, (Abd Majid, 2009) addressed the colonial period began when the separation between Islamic and non-Islamic matters took place. During pre-colonial times, there was only one law known as the National Law (Undang-Undang Negara), which used to administer Tanah Melayu. However, colonisation enforced a separation between Islamic and non-Islamic matters, and as a result, all Islamic and customs related matters were isolated and detached from their origin, which was then known as Undang-Undang Pentadbiran Hal Ehwal Agama Islam or the Administration of Islamic Religious Affairs (Abd Majid, 2009). Matters pertaining to these were administered by a special body known as Majlis Agama Islam Negeri or the State Islamic Religious Councils (SIRC), and the rest or the non-Islamic matters came under the responsibility of British civil and criminal law systems. Nik

Hassan (1987), Ghazali et al. (1990), and Htay and Salman (2014) described that all religious matters, including zakat were then administered by the central organisation in each state known as the Majlis Ugama Islam dan Istiadat Melayu (Council of Religion and Malay Customs). The new administration allowed zakat administration of each area or village to be placed under the responsibility of the respective village imam. Previously, the village imam worked independently, distributing to the poor on his own and was indirectly responsible for recording the collection and disbursement of zakat. Abd Majid (2009) and Ghazali et al. (1990) concurred, by noting the implications of such practice on the creation of a separate system in Malaysian administration. Nevertheless, some improvements pertaining to this after the independence are noticed and will be attended to further discussion.

b) Post-Independence Period

In the year of 1957, Tanah Melayu achieved its independence, with Sabah and Sarawak joining in in 1963 (Abd Majid, 2009). Since then, the zakat administration in Malaysia has been governed by the Federal Constitution and the fatwa released by the SIRC's (Dollah & Mohd Noor, 2009). Nordin (2008) noted that The Constitution of Malaysia article 3 (1) pronounces Islam as the official religion of Malaysia with all Islamic matters are to be placed under the control of the state governments. In addition, according to Article 3 (2) and (3) of the Federal Constitution, the religion of Islam is under the power of the Sultan (ruler), who is the head of the religion of Islam in each state. The states of Johor, Negeri Sembilan, Selangor, Perak, Kedah, Perlis, Kelantan, Terengganu, and Pahang are grouped as (a) under the jurisdiction of the Sultan (the ruler), while in the absence of the head or a ruler, states such as Pulau Pinang, Melaka, Sabah and Sarawak as well as The Federal Territories of Kuala Lumpur, Labuan, and Putrajaya are grouped (b) under the responsibility of the Yang Di-Pertuan Agong (the king) as the head of Islam for Islamic matters. Item 1 List 11 (State list) of the Ninth Schedule further states that zakat activities such as payment, collection, and disbursement of zakat money are under the power of the Sultan (the State's Constitutional Head) and Yang Di-Pertuan Agong (Dollah & Mohd Noor, 2009; Salleh, 2014). Such power is explained and included in the enactment of religious administration and Malay customs or enactment of zakat of individual states. Zakat enactment is the law formed under the authority of the state through the State Legislative Assembly (Nordin, 2008). In other words, all Islamic matters including zakat must be referred to the respective SIRC, which acts on behalf of the Head of State (the ruler). More explicit descriptions of the list of the state enactments are depicted in Table 01 below.

Table 01. States' Zakat Enactments

States	Zakat Enactment/Law
Wilayah Persekutuan	Peraturan Zakat dan Fitrah 1974
Selangor	Administration of Muslim Law enactment, 1952; Enakmen Jenayah Syariah (Selangor) 1995
Perak	Baitul Mal, Zakat dan Fitrah, 1951; Enakmen Pentadbiran Agama Islam 1992; Peraturan Zakat dan Fitrah 1975
Negeri Sembilan	Administration of Muslim Law Enactment, 1960; Peraturan Fitrah 1962; Enakmen Pentadbiran Hukum Syara' N. Sembilan
Pahang	Enakmen Pentadbiran Ugama Islam dan Adat Resam Melayu Pahang, 1982

Johor	Enakmen Pentadbiran Agama Islam Johor, 1978
Kedah	Zakat Enactment, 1955; Peraturan Zakat Kedah, 1982
Kelantan	Kelantan Council of Islamic Religion and Malay Custom Enactment, 1966; Enakmen Majlis Agama Islam dan Adat Istiadat Melayu Kelantan 1994
Terengganu	Administration of Islamic Law, 1964; Enakmen Pentadbiran Hal Ehwal Agama Islam 1986
Perlis	Administration of Muslim Law, 1964; Peraturan Zakat dan Fitrah
Pulau Pinang	Administration of Muslim Law Enactment 1959
Melaka	Administration of Muslim Law Enactment 1959
Sabah	Enakmen Pentadbiran Agama Islam, 1977; Enakmen Zakat dan Fitrah 1993 (Sabah)
Sarawak	Enakmen Zakat dan Fitrah 1966; Undang-undang Zakat dan Fitrah 1966

Source: Dollah, & Mohd Noor (2009)

In addition to the above enactments, fatwas issued by SIRC's also contribute to the differences in the administration of zakat among the states (Nordin, 2008). Basically, the National Fatwa Council (Majlis Fatwa Kebangsaan) acts as a coordinator for the fatwa decisions made at the national level, while at the state level, there is the State Fatwa Council (Majlis Fatwa Negeri), which is also known as the State Syariah Council (Majlis Syariah Negeri). Even though the National Fatwa Council controls the fatwa decisions made at the national level, the application of the fatwa depends on the Shariah committee in each state. As a result, there are differences in practices among the states, especially regarding the types of zakat as well as the collection and disbursement aspects. In sum, the Federal Constitution and the fatwa¹ released by the SIRC's have significant implications onto the zakat practices among ZIs in Malaysia. These implications have contributed to shaping the zakat administration in Malaysia.

2. Problem Statement

Recently, discussions on reporting practices of the ZIs in Malaysia have caught attention especially to many Muslim scholars. Nevertheless, before examining ZIs' reporting practices, there is a need to explore on how the historical background of ZIs may affect their operations which then influence the reporting practices. As noted earlier, all Islamic matters including zakat fall under the jurisdiction of the SIRC of each state (the enforcement of the law) (Ahmad, 2008). Each of the 13 states has its own Religious Administration Enactment, whereas the Federal Territories have their own Act to manage zakat matters. Nordin (2008) explained that the state governments have the authority to set up an institution or department to run all Islamic affairs including zakat. In fact, without the interference of the Federal Government, the state governments have autonomous power to manage the ZIs. Ahmad (2008) clarified that even though Islam is the official religion of Malaysia, in reality, the Federal Government does not have full control of religious affairs. Thus, the following sub-sections provide detailed discussions of the development of zakat collection and disbursement and the issues related to them.

¹ Fatwa is taken from the Arabic word *afta-ifta'an* which clarifies and explains matters relating to the Shariah (Islamic law). The fatwa is the ruling or regulation set out based on a point of Islamic law that is recognised by the authority.

2.1. The Collection of Zakat in Malaysia

Zakat is categorised into two types according to the two categories of zakatable assets: unanimously agreed on zakatable assets such as gold, silver, agriculture, livestock, and business; and non-unanimously agreed on zakatable assets such as income from employment and consultation services, investment in shares, and manufacturing (Hamat, 2014). As pointed out by Alias (2008), even though the ZIs have been around for the past 70 years, the total collection did not show the encouraging results until in the early 1990s. Realising on this weakness, efforts to encourage and improve zakat practices have been taken. For instance, the government has introduced a tax rebate to ZPs, while at the state level, ZIs have initiated a new dimension in their operation and administration. Many efforts such as institutionalising a body that acts as a subsidiary of the SIRC to perform collection of zakat were taken, starting with Pusat Pungutan Zakat Wilayah Persekutuan (1991), Lembaga Zakat Selangor (1994), Pusat Urus Zakat Pulau Pinang (1994), Pusat Kutipan Zakat Pahang (1995), Pusat Zakat Negeri Sembilan (1998), and Pusat Zakat Melaka (2001) (Ab Rahman et al., 2012; Alias, 2008; Nordin, 2008). In addition, the government's action on the tax rebate issue has received the full support of the Fatwa Council (Nordin, 2008); this was clearly evidenced when the Fatwa Committee adapted the application of tax rebate in zakat payment according to the Income Tax Act 1967. Section 6A (3) of the Act, which was issued in 1998 specifically states that "A rebate shall be granted for a year of assessment for any zakat, fitrah, or any other Islamic religious dues payment of which is obligatory and which are paid in the basis year for that year of assessment to, and evidenced by a receipt issued by, an appropriate religious authority established under any written law". Even though the collection of zakat money has shown some improvements, several significant issues arose during the process. As explained by Alias (2008), the past performance of ZIs was unsatisfactory especially in their management activities until the early 1990s, since when actions have been taken to coordinate, upgrade, improve, and modernise the zakat collection management system. It is believed that the weak performance was due to the ineffective collection and disbursement system. Over a long period, it has created a substantial loss of the potential collection of zakat money. Outdated and unproductive efforts to attract Muslims to pay zakat were the contributing factors towards this unsatisfactory outcome. Accordingly, the current study explores further on how these issues affect ZIs' reporting practices.

2.2. Issues on Reporting of Zakat Collection

Several issues pertaining to the collection system have been highlighted, such as availability of data, unofficial agencies², and human resource management. Regarding to the first issue, Nik Hassan (1987) emphasised the problems pertaining to collection information, which is not always available, and it is vague and incomplete once it available. Similarly, Taha, Adam, et al. (2017) found that the disclosure of zakat collection and disbursement information in the annual reports of ZIs are limited and inconsistent, while some states do not provide any such information for public viewing. The authors believe that this is due to the no request has been received from the public, and no obligation to disclose is stated in the fatwa decision on publishing the annual reports. Furthermore, some states do not keep proper records on ZPs and ZRs, hence lead the ZIs to have no sound and accurate database information (Nordin, 2008). An additional

² Other channels not provided by the State Islamic religious councils (SIRCs)

challenge of being effective and efficient in delivering the service, ZIs must keep all the information in a computerised system and be familiar with the latest technology in order to ensure the vital and relevant information can be retrieved, reported, and disclosed to the public, thus creating trust and gaining public confidence.

Second, the issue of zakat payment via unofficial agencies was highlighted by authors such as Ghazali et al. (1990), Wahid et al. (2009), Idris (2005), and Wahid et al. (2010). Ghazali et al. (1990) found that the collection of zakat-ul-Fitr is always shown to be higher than zakat-ul-Maal especially in the states of Perlis, Pahang, Negeri Sembilan, Johor, and Selangor. This is because only a small proportion of the Muslim community in Malaysia pay zakat directly through the zakat offices; the majority tend to pay zakat on wealth directly through other avenues such as private organisations, individuals, or even families which are considered as unofficial agencies. There are several reasons for this preference. First, they tend to seek for satisfaction of paying zakat directly to the asnaf instead of zakat offices or formal agencies. Second, they doubt about the capability of the SIRC's in administering zakat disbursement. Third is due to the inefficiency of collection efforts by the SIRC's; and finally, the inconvenience of having to go and pay zakat at the SIRC's. A further reason also revealed by Wahid et al. (2010), which is the lack of transparency on the disclosure of zakat information that simultaneously creating doubt about the credibility of ZIs in managing the money. To encourage more ZPs to pay directly to official zakat agencies, the public needs the correct and relevant information to be reported and disclosed in the annual reports.

In addition, human resource management difficulties, such as lack of manpower and expertise are another important factor that need to be considered (see Alias, 2008; Ahmad, 2008; Ahmad Razimi et al., 2016; Ghazali et al., 1990; Masruki & Azizan, 2017; Nordin, 2008; Sheikh Obid et al., 2011). It is believed that the lack of training in special areas, a shortage of qualified professional human resources leading the organisations, and a shortage of senior ZMs in planning and organising the administrative matters contribute to public discouragement to pay directly to the official zakat agencies. Furthermore, ZIs face the issue of leaders who lack of necessary competence to manage the institution since most of them are graduates from religious-based studies and they are only familiar with religious matters but lack expertise in terms of actual practice in the administration of trade, business, and zakat issues. In other words, the ZIs do not have adequate professional members and staff to execute the necessary tasks. From the reporting and disclosure perspective, there is a shortage of qualified and trained personnel in the accounting field, i.e., accounting officers to handle the financial matters in a more systematic manner (Ahmad, 1990). These factors eventually affect the reporting practices of ZIs, and further attention is needed in order to overcome the situation.

2.2.1. Zakat Disbursement in Malaysia

Zakat obligation is addressed about 82 times in the holy Qur'an (Dollah & Mohd Noor, 2009), which affirms that the zakat money collected should be distributed to the specified groups of zakat recipients (ZRs) by the amil/zakat manager (administrator). These specified groups of zakat recipients are clearly stated in the holy Qur'an, Surah 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 Allāh; and for the wayfarer: (thus is it) ordained by Allāh, and Allāh is full of knowledge and wisdom.

Abd Khafidz (2011) asserted that in the 2nd year of the migration (hijrah)³ of the Prophet (SAW) to Medina, ALLĀH (SWT) revealed the people who are eligible to receive zakat. It is stated clearly in Surah At-Taubah verse 60 that, there are about eight specific groups of qualified recipients⁴ who entitled to receive zakat: extremely poor Muslim (al-Masakeen), the poor (Fuqara'), those employed to administer and collect the funds (amil), those whose hearts have been recently reconciled (to the truth) i.e. those who have embraced Islam, the captives (Ar-Riqaab) to be freed, those in bondage and in debt (Al-Gharimeen), those in the cause of Allāh (Fi- Sabeelillah), and the wayfarer (Ibnus-Sabeel). Disbursement issues concerning the accountability of ZIs which affect reporting should be given a priority as these issues are frequently raised by the public, especially by the ZPs. The zakat money paid by them and later distributed to the eligible recipients should be effectively and efficiently monitored; otherwise, the status of whole Muslim community would be harmed (Ahmad et al., 2006).

2.2.2. Issues on Reporting of Zakat Disbursement

Previous studies raised concerns about the disbursement of zakat by ZIs in Malaysia (Ab Rahman et al., 2012; Bakar & Rashid, 2010; Dollah et al., 2005; Makhtar & Abdul Wahab, 2010; Nik Hassan, 1987; Sheikh Obid et al., 2011; Wahid et al., 2009; Wahid et al., 2010). Among the disbursement issues are the allocation of zakat money, non-disbursement balance, the inefficiency of disbursement of zakat money, zakat personnel, the inefficiency of the disbursement methods, and inadequate disclosure of zakat disbursement information. In Malaysia, disbursement of zakat money is based on two approaches. First, zakat recipients are divided into eight asnaf with an equal amount assigned to each asnaf (i.e., one-eighth portion). Second, the money is allocated based on the needs and priorities of the Muslim community in the state. However, a problem appears because the actual disbursement depends on the availability of the asnaf. As a result, the costs of administrating zakat are more than twice the allocation assigned to the destitute and poor category of asnaf in certain states such as Perak, Negeri Sembilan, and the Federal Territory (Nik Hassan, 1987). This study perceives that such findings show the need for disclosure of the disbursement information with appropriate statements of the allocation details of each asnaf portion. This is important in order to provide the public with clear idea of how much the zakat money has been disbursed to each asnaf category.

In the past, money often remained idle and was not active or invested (Ghazali et al. 1990). Wahid et al. (2010) revealed that on average, about 26 per cent of the zakat money is left undistributed every year. Ghazali et al. (1990) posited that it is better to invest the non-disbursement zakat money as long as the obligations to destitute and needy people have been met. Indeed, Taha, Zulkifli, et al. (2017) explained that many ZRs are dissatisfied with the current disbursement system especially pertaining to the excess of zakat collection. They revealed in the years 2007 and 2008, one ZI recorded an excess or surplus of RM84.62 million and RM54.01 million, respectively (Taha, Adam, et al., 2017). The reasons for such a large amount

³ Islamic calendar

⁴ Used interchangeably with the term asnaf

in the account were not clearly explained and disclosed. A further problem as noted by Nordin (2008) is the disagreement among states and lack of clear decisions about whether non-disbursement money can be invested or not. In reality, eventually, it depends on the individual state's fatwa decision to ensure the zakat money of the eight groups of recipients is disbursed as soon as possible. This follows the practice of Prophet Muhammad (SAW), where only a small amount of money is left in the public treasury as precautionary reserves (Kahf, 1999). To ensure that their accountability is discharged and to avoid any misunderstanding among the public, ZIs need to report and disclose in their annual reports regarding the balance of the zakat money.

Ab Rahman et al. (2012), Ahmad Razimi et al. (2016), and Ahmad (2008) addressed another essential issue, which is the inefficiency of the disbursement of zakat money. Basically, zakat money is disbursed by the institutions to the eligible recipients based on certain criteria set by the authority. However, the institutions have received complaints and been criticised because they have not made public details of the money that reaching the targeted group of recipients. To ensure the information is disseminated and most importantly, to show that they are accountable in carrying out their duties, ZIs need to be transparent by disclosing and publicising their transactions. One of the ways to communicate is via reporting in the annual reports.

Sheikh Obid et al. (2011), Mohd Noor et al. (2005), Ahmad Razimi et al. (2016), and Masruki and Azizan (2017) noted that to improve the disbursement efficiency, the ZIs cannot rely solely on a computerised system since the power of human resources is also needed from the beginning of the collection process until the money reaches the ZRs. The ZIs need to hire adequate staff since human interaction is crucial in such organisation. This is because the effective, efficient operation and management of the disbursement process and continuous monitoring of asnaf progress and activities need to be ensured in order to determine that the zakat objective is fulfilled.

In addition to these issues, there is increasing concern and dissatisfaction with the performance of ZIs. Wahid et al. (2009) revealed most ZPs are dissatisfied with the current zakat disbursement system including in the states that have corporatised their operation. Although there are some encouraging signs of improvements in certain aspects, inefficient disbursement methods and lack of information pertaining to zakat disbursement affect the decisions of ZPs to paying zakat, with the eventual decrease in the potential of zakat collection (Wahid & Kader, 2010). Furthermore, related issue that Wahid and Kader (2010) addressed is about the respective institutions that not disbursing the money fairly to all ZRs, including the Ar-Riqaab, Ibnu-Sabeel, and Al-Gharimeen. This is supported by Nik Hassan (1987), who affirmed that certain states do not even allocate zakat money for certain asnaf, such as Ar-Riqaab. The study believes the institutions have their own justifications on this matter. Thus, ZIs have to disclose the respective information so that the public will have a better understanding and resolve their current distrust.

The above discussions show weaknesses in both collection and disbursement system which indirectly cause doubts and distrust regarding the accountability of ZIs in managing zakat activities (collection and disbursement). Even though the issues on collection and disbursement activities were raised in past literature, discussions pertaining to the reporting aspect are still lacking. However, the study believes this area needs special attention, as it further emerges arguments and debates on the issue of insufficient zakat information and inconsistencies of reporting practices via annual reports of ZIs.

Nevertheless, the fact that zakat affairs in Malaysia fall under the state jurisdictions, these resulted unstandardised in both the state enactments as well as fatwa decisions made by each ZIs. The study admits such situation affects zakat administration in Malaysia, and consequently, it causes inconsistencies in reporting practices between ZIs. With regard to this, hence, it is vital to investigate factor such as historical background of ZIs which can provide an insight of reporting practices of Malaysian ZIs.

3. Research Questions

The study intends to examine whether the historical background of ZIs may influence the Malaysian ZIs' reporting practices.

4. Purpose of the Study

This paper aims to examine how historical background of ZIs in Malaysia may influence their reporting practices.

5. Research Methods

In answering the objective of the study, this paper reviewed prior literature on the management issues of ZIs, zakat reporting as well as disclosures studies on zakat and waqf from the Malaysian context. Realising the dearth of reporting and disclosure studies in this area, the study also referred to other relevant sources such as books, zakat conference, and other relevant and published materials by ZIs.

6. Findings

It has been noticed that factor such as historical background of ZIs plays a significant role in shaping the Malaysian ZIs' administration. Nevertheless, initiatives and new management strategies to implement better zakat administration practices have been engaged by the ZIs. In addition, such initiatives and new management strategies implemented have indirectly created the classification of the ZIs into different structures, as described below.

6.1. The Structure of Zakat Institutions

Initiatives and efforts by ZIs to ensure their efficient and effective management cannot be underestimated. One of the significant efforts involves the change of the management style through corporatisation. Nelson and Nikolakis (2012) described corporatisation as "where government retains ownership of the state-owned enterprises (SOE) but restructures the enterprise to operate on a more business-like basis" or "the adoption of more business-like practices or governance arrangements by government agencies" (p. 364). This effort actually resulted in ZIs adopting effort of different organisational structures, and grouped them according to their main functions. Previous authors such as Hazali (2016), Shafie (2015), Ab Rahman et al. (2012), Aziz et al. (2013), Abd Wahab & Abdul Rahman (2012), and Abidin et al. (2014) have explained the administrative structure of ZIs. These authors have similarities in grouping each ZI according to its category with slight differences in between. For instance,

Aziz et al. (2013) classified them into three categories, while Ab Rahman et al. (2012) and Hazali (2016) described four forms of zakat corporations. This present study chose the description by Hazali (2016) and the Zakat report by Pusat Pungutan Zakat Wilayah Persekutuan (PPZ, 2016). They explained that there are four different forms of zakat corporations and classified them into three models as follows: First, partial corporatisation, where the collection is done by the subsidiary of SIRC, but disbursement is still controlled by the SIRC; Second is full corporatisation, where both collection and disbursement of zakat are posited under the responsibility of sub-divisions of the SIRC/independent government body; and third is Baitul Mal-controlled (wholly owned by the state), where both of collection and disbursement of zakat is controlled by SIRC. These structures have created some difficulties in categorising ZIs in Malaysia, as they are religious institutions with their own specified ZPs and ZRs/asnaf, and having different non-profit making motive. Following to that, discussion on financial reporting requirements for State Islamic Religious Councils (SIRCs) as well as ZIs are further examined in order to provide basic idea on ZIs' reporting practices.

6.2. Financial Reporting Practices of SIRCs and Zakat Institutions

In the preparation of annual reports, not all ZIs disclose zakat information for public viewing since there is no specific regulation that requires them to do so. The exception is obvious in the Federal Territory Islamic Religious Council (MAIWP) or Wilayah Persekutuan (WP). As a federal statutory body, it is subjected to Treasury Circular number 4/2007, which requiring an institution to publish its annual report according to the specific period and tabled in the parliament (Shafie, 2015). Nevertheless, all the ZIs in Malaysia basically involve in the preparation and presentation of their financial reports. Furthermore, generally in Malaysia, the financial reports are prepared by the SIRCs pursuant to Section 16 (1) of the Financial Procedures Act, 1957 revised (1972), Section 9 of the Audit Act (1957), and the Local Government Act, 1976 (Act 1971) (Mohd Zain, 2005). In addition, all SIRCs would follow their own State Islamic Administrative Law, which is a laid down principle that provided certain provisions on the enactment of the financial reporting requirements. Ghazali, Arshad and Mohd Zain (2013) highlighted that all statutory bodies, including SIRCs is currently following the guideline in order to prepare their financial statements in accordance with the Statutory Bodies (Accounts and Annual Reports) Act 1980. They are also required to prepare yearly financial statements to be submitted to the Auditor General for auditing purposes. Yaacob (2006) added that SIRCs have their own accounting deadlines and instructions from the Accountant General (AG) and Auditor General that need to be followed.

Some SIRCs not solely refer to the above guidelines and procedures, but they also rely to a set of accounting standards issued by the Malaysian Accounting Standard Board (MASB), in particular the Private Entity Reporting Standard (PERS) and the state enactment (Masruki et al., 2016). ZIs of Federal Territory (Kuala Lumpur), Kedah, and Terengganu follow financial guidelines issued by the Malaysian National Audit Department known as Amalan Terbaik Pengurusan Kewangan Majlis (Best Financial Management Practices of Majlis Agama Islam), while Tatacara Kewangan Syarikat (the companies' financial procedures) is used by Negeri Sembilan (Hareed, 2008; Mohd Zain, 2005; Zahari, 2012 as cited in Ghazali et al., 2013). Mohd Zain (2005) and Hareed (2008) noted that sources of procedures after the above guidelines and standards include treasury instructions (TI) or treasury circulars (TC) and ZIs' own

guidelines such as Lujnah Fatwa Kewangan Negeri Johor (for SIRC Johor) and Tatacara Kewangan Majlis Agama Islam Pulau Pinang 1995 (for SIRC Pulau Pinang). Hareed (2008) highlighted that although the majority of ZIs have written financial policies and procedures providing a basis for the financial control procedures, these documents are only in written form and there is a need for enforcement of these policies and procedures.

Based on the above discussion it reveals that historical background of ZIs play a part in shaping the ZIs administration in Malaysia. As a result it created three different structures that ultimately influence ZIs' reporting practices.

7. Conclusion

The background and development of zakat administration in Malaysia play a crucial role in shaping the financial reporting practices. It is believed that the history of the zakat administration actually contributes to long-term implications on ZIs reporting practices and it is compounded with variation in practices between the three different structures of ZIs that contribute to multiple management weaknesses. In conjunction to these, previous and current efforts were proposed and implemented by the government and the institutions in order to place zakat as a comparable institution with other financial institutions without being underestimated. Major actions and cooperation at federal, national, and state level have been achieved. However, in reality, ZIs lack of important ingredients i.e., the reporting aspects which need further attention. The paper notices further examination on reporting area with respect to reporting and especially disclosure studies offer many rooms to be explored, especially a study conducted via survey interview.

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