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ZAKAT DISCLOSURE INDEX BY ISLAMIC BANKS AND DEVELOPMENT FINANCIAL INSTITUTIONS IN MALAYSIA

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ABSTRACT

Paying zakat and disclosing it transparently to stakeholders is one of the ways to demonstrate the Islamic ethical value and accountability of Islamic finance institutions (IFIs). Nevertheless, comprehensive zakat information disclosure practices by Islamic banks (IBs) and Development Financial Institutions (DFIs) have received less attention. Therefore, this study was conducted to develop a comprehensive Zakat Disclosure Index (ZDI) for IBs and DFIs and measure the ZDI level of these institutions. Content analysis was performed through financial statements, annual reports, annual integrated reports and annual sustainability reports for four consecutive financial years from 2016 to 2019. The entire population of 16 IBs and 6 DFIs was selected. The ZDI was developed with two categories based on the liability of paying zakat. The scoring was divided into three groups: (i) mandatory

financial information versus voluntary financial information versus mandatory non-financial information versus voluntary non-financial information; (ii) mandatory versus voluntary; and (iii) financial versus non-financial. The result showed that the overall disclosure level was at 60 percent, where mandatory disclosure was at 43 percent and voluntary disclosure was at 17 percent, while for financial and non-financial information, the scores were not much different at 25 percent to 33 percent. The study's implication lies in establishing a standardised zakat index, enhancing comparability among reporting entities. Furthermore, the study holds importance for regulators as it aids in assessing the sufficiency of existing regulations and guidelines. It can guide regulatory actions to uphold the principles of *maqasid shariah* in reporting practices.

Keywords: Zakat disclosure index, Islamic banking and finance, Islamic banks, development financial institutions (DFIs).

JEL Classification; G21, I30, P43.

INTRODUCTION

As an Islamic financial institution, one of the methods to show Islamic ethical value and accountability through business operations is to pay zakat and disclose it clearly to the stakeholders. Effective, transparent and timely reporting to stakeholders, the public, regulators, investors and others is critical to the economic decision-making process aside from the equitable distribution of resources to society. From the Islamic perspective, transparency is required to show trust (*amanah*), as Allah is the real owner of all wealth. It is a compulsory disclosure of trust (*amanah*) as Islamic banks, by nature, are ethical banks that promote socio-economic values. This responsibility is expected even more from the Development Financial Institutions (DFIs), where the purpose of establishment is specifically to promote development in targeted sectors for the sake of socio-economic and national development entirely (Rahman et al., 2014).

Reviewing previous studies on the Zakat Disclosure Index (ZDI), it was found that various items or constructs are being selected to measure the disclosure level of zakat information (Zaaba & Mohd Ariffin, 2018; Tuan Ibrahim et al., 2020; Zulkepli, 2013). In their study, Abojeib et al. (2019) emphasised several problems with zakat information disclosure in financial reporting, including a lack of

transparency and disclosure regarding zakat computation, the use of various standards and zakat rates, the selection of Muslim and non-Muslim shareholders, the distribution of zakat and the roles and responsibilities of Shariah committees. They recommended establishing a minimum standard for the information and data to be presented within the annual reports on zakat calculation by standard-setting organisations. These organisations comprise the Malaysian Accounting Standard Board (MASB), zakat authorities and Bank Negara Malaysia (BNM), which supervise IFIs. Somehow, limited studies solely focus on the comprehensive ZDI itself. Nonetheless, many studies generally select zakat information as part of the Islamic ethical index on a bigger scale. In addition, Abd Samad and Said (2016) suggested using additional secondary sources (apart from the audited financial statements) to determine the level of disclosure, including the group's website, annual report and bank bulletins, if available. Moreover, insufficient research has been conducted on DFIs, which are mandated with a strategic aim for the nation's socioeconomic growth and aligned with zakat's objectives.

Therefore, this study aims to develop a comprehensive Zakat Disclosure Index that could serve as a standardised checklist to measure the level of zakat information disclosure for Islamic banks (IBs) and DFIs. This study aims to develop a new Zakat Disclosure Index (ZDI) for IBs and DFIs and to measure zakat disclosure level by IBs and DFIs using ZDI. The findings can provide regulators and the general public with information about the degree of Islamic banks' zakat disclosure transparency and a comprehensive review of current zakat reporting patterns. The ZDI makes an important contribution because various stakeholder groups increasingly demand reliable and relevant information (Ghazali & Weetman, 2006). For regulators, i.e., BNM, MASB, Jabatan Wakaf Zakat dan Haji (2010; 2021), or any other relevant authorities, the finding of this study can help in evaluating the adequacy of current regulations and guidance and to do necessary actions towards upholding maqasid shariah in reporting. For instance, the ZDI can guide investors and users by comparing practices among reporting entities that are paying zakat.

This study is structured into five sections. After the introduction of this study in Section 1, Section 2 outlines the background of zakat for business in Malaysia generally, and in IBs and DFIs specifically, relevant authorities and regulations related to accounting, reporting and disclosure of zakat information. It also provides a literature review of previous studies that contributed to developing the ZDI. Section 3

discusses the research design and methodology of developing ZDI and data collection and analysis process. Then, the data are observed, analysed and discussed in Section 4 through descriptive analysis and level of disclosure analysis or scoring analysis. Lastly, this study will end with Section 5, which contains the conclusion, limitations and contributions.

LITERATURE REVIEW

Zakat Disclosure in Malaysia

BNM, MASB and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) have issued several versions of policy documents on zakat disclosure. BNM issued the Policy Document for Financial Reporting for Islamic Banking Institutions (FRIBI), whilst MASB produced the MASB Technical Release *i-1* (TR *i-1*) Accounting for Zakat on Business and the MASB Technical Release *i-3* (TR *i-3*) Presentation of Financial Statements of Islamic Financial Institutions. Nevertheless, TR *i-3* has been archived. There are five amended versions of FRIBI, but the zakat disclosure requirement remained the same since 2012. MASB issued the MASB Tr *i-1*: Accounting for Zakat on Business in 2006 as the first guidance on the recognition, measurement, presentation and disclosure of zakat by all entities that pay zakat, not only to financial institutions. The objective of this issuance is to improve the comparability of reported financial information on zakat. AAOIFI also provides a standard for zakat, the Financial Accounting Standard 9 (FAS 9) but MASB specified that this standard is inappropriate in the Malaysian context because of the following reasons (MASB, 2020):

- i. the accounting treatment outlined in FAS 9 is specifically for Islamic financial institutions that act as collectors and distributors of zakat; and
- ii. it might run contrary to state or federal legislation in Malaysia.

Zaaba and Mohd Ariffin (2018) highlighted the zakat disclosure checklist based on the currently available regulations as per Table 1. MASB Tr *i-1* is to standardise the recognition, measurement, presentation and disclosure of zakat on business due to the disparity in the treatment of zakat among entities that pay zakat. MASB Tr *i-1* outlined the zakat rate of 2.5 percent as determined by the National Fatwa Council (refer to Section 7 of Tr *i-1*); zakat period of at least

12 months of operation (refer to Section 6 of Tr i-1); zakat base calculation method of Adjusted Working Capital or Adjusted Growth (refer to Section 10 of Tr i-1); measurement of zakat assets and liabilities to be based on the similar measurement in the preparation of the reporting entity's financial statements (refer to Section 14 of Tr i-1); and the amount of zakat assessed for the current period shall be presented as a line item on the face of the income statement (refer to Section 15 of Tr i-1). The comparison with BNM's FRIBI is tabled in Appendix 1.

Table 1

Regulation References for Zakat Disclosure Checklist

Items	Standards/Guidelines			
	BNM's Guidelines	AAOIFI's FAS 9	JAWHAR's Manual	MASB Tr i-1
Bank liable for zakat on business	a	a		a
Bank liable for zakat on behalf of shareholders	a	a		
Beneficiaries of zakat	a	a		
Method applied in the determination of zakat base	a	a	a	a
Amount paid for zakat		a	a	a
SSB or SC attestation that zakat has been computed according to Shariah	a	a		
Rate used to compute zakat		a	a	a

Source: Zaaba and Mohd Ariffin (2018)

Regarding zakat reporting, there is no specific requirement under the Development Financial Institutions Act (DFIA) 2002. Nevertheless, there are provisions for DFIs reporting zakat information that follow the BNM regulation. In 2020, BNM produced the Policy Document on Financial Reporting for Development Financial Institutions (FRDFI) (Bank Negara Malaysia, 2020), which applies to the financial year beginning on or after 1st January 2020. The requirement is similar to the requirement under FRIBI 2019. This 2020 version superseded the first financial reporting guidelines for DFIs, namely BNM Guidelines on Financial Reporting for Development Financial Institutions, dated 24th December 2012, which took effect for the financial year starting 1st January 2013.

Past Studies on Zakat Disclosure

Several studies outlined the appropriate information to be part of the ZDI to be used in measuring the disclosure level by Islamic banks. For instance, Zaaba and Mohd Ariffin (2018) proposed the Zakat Disclosure Checklist to measure the disclosure level by IBs in Malaysia. This checklist is developed by outlining the requirements in the regulations on zakat by BNM's guidelines, AAOIFI's FAS 9, JAWHAR's Manual and MASB Tr i-1. Besides reviewing the mandatory requirements by the relevant authorities, there are also studies on voluntary disclosures of zakat information. For instance, Abd Samad and Said (2016) focused on the zakat disclosure items in depth during the financial year 2014. Tuan Ibrahim et al. (2020) investigated the relationship between ethical values and the performance of 50 banks (not limited to Islamic banks) in Malaysia using the ZDI and the Charity Disclosure Index (CDI). Besides banking sectors, the study by Md Zaini (2017) focused on the disclosure of the listed companies in Malaysia where 'disclosure on the policy for an Islamic form of tax payable including amount and zakat paid breakdown' is one of the 61 items to measure the voluntary disclosure. Interestingly, the element of zakat information being communicated to the public has been widely used in any Islamic business entity to measure the practice of Islamic values and is not limited to Islamic banking only.

METHODOLOGY

Zakat Disclosure Index

The methodology began by developing the ZDI. The items were segregated into two types of zakat obligation of IBs: Category A, where the IB entity is liable to pay zakat, and Category B, where the IB entity is not liable to pay zakat for various reasons. The items under Category A were further grouped into two parts: Part I – Financial Information and Part II – Non-Financial Information. All items required by the regulations were included in this index, while the items with a voluntary nature that previous studies had highlighted were selected after analysing the actual disclosure practice by all IBs and DFIs in the annual report for the financial years of 2016, 2019 and 2020. Nevertheless, due to the unavailability of all DFIs' annual reports for the financial year 2020, the index would only be developed based on the latest regulations in the financial year 2019.

Among the 16 items, the only item dropped was ‘zakat institution attestation on zakat computation’. The justification was that the Shariah Committee (SC) attestation was sufficient in verifying the zakat computation and other Shariah-related matters. The BNM Policy Document on Shariah Governance 2019 already served a long list of responsibilities. Furthermore, some IBs pay zakat to several different state zakat authorities according to the location of their branches or operations. Therefore, putting this item as one of the requirements might create a bureaucratic issue and a red tape dilemma. In addition, six new items were included in the index: 4(b) detailed disclosure of zakat authority and amount respectively; 6(c) Statement of Cash Flow; 7(b) zakat policy made available to the public; 10(a) legality to distribute zakat–*wakalah* zakat, 10(c) list of *asnaf*/beneficiaries and amount distributed to each group; and 10(e) list of zakat contribution as part of corporate social responsibility (CSR) activity with the amount contributed. All of them were extracted from the content analysis of entity and group official reports. The list of disclosure, measurement method and explanation for each item are tabulated in Table 2.

Four groups were identified for Category A – bank liable to pay zakat, namely (1) mandatory financial information; (2) voluntary financial information; (3) mandatory non-financial information; and (4) voluntary non-financial information. For Category B – bank not liable to pay zakat, there were only 2 groups, namely (i) mandatory information and (2) voluntary information.

POPULATION

The second step was to define the population by selecting the whole population of 16 IBs and six DFIs identified under the purview of BNM. Then, in selecting the period covered, the most current sources were preferable. Nevertheless, since not all DFIs have published their 2020 annual reports, the financial year 2019 should be a suitable source. The analysis included disclosure in three-year annual reports to enhance the data comparability. The financial year 2016 was selected as the starting year because it was the first year for one of the banks, Bank Pertanian Malaysia Berhad, also known as Agrobank, to operate as a fully Islamic banking institution (since July 2015).

Table 2

Development of Zakat Disclosure Index

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Mandatory	Voluntary	Type of Disclosure	Score
CATEGORY A – Bank liable to pay zakat							
I. Financial Information							
1. Zakat method adopted		Disclosure on the method used to calculate the zakatable amount using (a) net asset method; or (b) net investment asset method; or any other method	Mandatory requirement under MASB Tr i-1, 2006, Paragraph 16(a); and FRIBI 2019, Paragraph 11.5, 11.6(b)(ii) or FRDFI 2012, Paragraph 10.6(b)(ii)	/		‘1’ if disclosed and ‘0’ if not disclosed	
2. Zakat rate		Percentage of zakat base used in calculating the zakatable amount	Zaaba and Hassan (2020)	/		‘1’ if disclosed and ‘0’ if not disclosed	(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Type of Disclosure	Score
			Mandatory	Mandatory	Voluntary
3.	Amount of zakat	Detail computation with any adjustment made	Zuhra Mohd Abbas et al. (2018)	/	'1' if disclosed and '0' if not disclosed
3(a)	Detail computation	List of all items included with any adjustment made	Zuhra Mohd Abbas et al. (2018)	/	'1' if disclosed and '0' if not disclosed
3(b)	Current zakat expense	Derived from Income Statement	Mandatory requirement under MASB Tr i-1, 2006, para 17(a)	/	'1' if disclosed and '0' if not disclosed
3(c)	Zakat paid	Separation of zakat and taxation items on the face of the Income Statement	Mandatory requirement under MASB Tr i-1, 2006, Paragraph 15 – one-line item on the face of the income statement	/	'1' if disclosed and '0' if not disclosed
3(d)	Zakat paid	Derived from Statement of Cash Flow	Mandatory requirement under MASB Tr i-1, 2006, Paragraph 17(b)	/	'1' if disclosed and '0' if not disclosed
3(e)	Provision for zakat/ zakat liability	Derived from Statement of Financial Position	Mandatory requirement under MASB Tr i-1, 2006, Paragraph 17(c)	/	'1' if disclosed and '0' if not disclosed
3(f)	Any adjustments recognized in the period for zakat of prior periods	Derived from notes to the accounts	Mandatory requirement under MASB Tr i-1, 2006, Paragraph 17(d)	/	'1' if disclosed and '0' if not disclosed

(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Type of Disclosure	Score
4.	4(a)	Zakat paid to zakat institutions Zakat paid to zakat institutions	General statement Mandatory	Mandatory requirement under FRIBI 2019, Paragraphs 11.5 and 11.6(b)(iii) – beneficiaries of zakat fund, e.g., Baitul Mal, the poor; or FRDFI 2012, Paragraph 10.6(b)(iii) * new	/ '1' if disclosed and '0' if not disclosed
	4(b)	Detailed disclosure of zakat authority and amount respectively	Details of the name of zakat authorities and the amount paid to each of them		/ '1' if disclosed and '0' if not disclosed
5.	5(a)	Zakat fund (required by AAOFI FAS 9 regulation but not applicable to Malaysia) Sources of zakat	In monetary measure	Haniffa and Hudaib (2007), Obid and Hajj (2011), Rahman et al. (2014), Abd Samad and Said (2016), Md Zaini (2017), Tuan Ibrahim et al. (2020), Al-Honaidi et al. (2020), Zaaba and Hassan (2020), Vebtasvili (2021)	/ '1' if disclosed and '0' if not disclosed
	5(b)	Uses of zakat	In monetary measure		/ '1' if disclosed and '0' if not disclosed

(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Type of Disclosure	Score
			Mandatory	Mandatory	Voluntary
5(c)	Balance of non-distributed zakat amount	In monetary measure	Haniffa and Hudaiib (2007), Rahman et al. (2014), Abd Samad and Said (2016), Al-Homaidi et al. (2020), Vebtasvili (2021)	/	'1' if disclosed and '0' if not disclosed
5(d)	Reasons for the balance of zakat	In monetary measure		/	'1' if disclosed and '0' if not disclosed
6(a)	Disclosure on the face of Financial Statements	Zakat payables under Statement of Financial Position – zakat payables (if any)	Mandatory requirement under FRIBI 2019	/	'1' if disclosed and '0' if not disclosed
6(b)	Statement of Profit or Loss/Income Statement – zakat expenses	Zakat expenses deducted from the Profit Before Zakat and Tax	Mandatory requirement under MASB Tr i-1, 2006, paragraph 15 – one-line item on the face of income statement and FRIBI 2019, Appendix I * new	/	'1' if disclosed and '0' if not disclosed
6(c)	Statement of Cash Flow – zakat paid	Zakat paid		/	'1' if disclosed and '0' if not disclosed

(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Type of Disclosure	Score
6(d)	Notes to Financial Statements	Focus on the Summary of Significant Accounting Policies on zakat	Mandatory requirement under FRIBI 2019, Paragraphs 11.5 and 11.6(b)(i),(ii),(iii); or FRDFI 2012, Paragraphs 10.5 and 10.6(b)(i),(ii),(iii)	Mandatory	/
7.	II. Non-Financial Information				'1' if disclosed and '0' if not disclosed
7(a)	Zakat Policy	Zakat obligation – Party is liable for zakat either on the business and/or on behalf of the shareholders	Mandatory requirement under MASB Tr 1-1, 2006, para 16(b); & FRIBI 2019, Paragraph 11.6(b)(i) – explanatory notes or Statement from the Board; or FRDFI 2012, Paragraph 10.6(b)(i)	/	'1' if disclosed and '0' if not disclosed
7(b)	Brief statement on IBs Zakat Policy	Zakat Policy Document	Tuan Ibrahim et al. (2020)	/	'1' if disclosed and '0' if not disclosed
7(c)	Zakat Policy made available to the public	Zakat Policy Document made available to the public	* new	/	'1' if disclosed and '0' if not disclosed
					(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Type of Disclosure	Score	
			Mandatory	Mandatory		
8.	Statement from the Board	Statement on zakat management in the organisation.	Tuan Ibrahim et al. (2020)	/	‘1’ if disclosed and ‘0’ if not disclosed	
9.	9(a)	Shariah Committee (SC) Attestation SC attestation that sources and uses of zakat according to Shariah	Declaration by the SC in the SC Report	Haniffa and Hudaib (2007), Obid and Hajj (2011), Rahman et al. (2014), Abd Samad and Said (2016), Rehman et al. (2020), Tuan Ibrahim et al. (2020), Al-Homaidi et al. (2020)	/	‘1’ if disclosed and ‘0’ if not disclosed
	9(b)	SC attestation that zakat has been computed according to Shariah	Declaration by the SC in the SC Report	Mandatory requirement under FRIBI 2019, Paragraph 11.4(c) (iv), or FRDFI 2012, Paragraph 10.4(c)(iv)	/	‘1’ if disclosed and ‘0’ if not disclosed

(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference	Type of Disclosure	Score
				Mandatory	Voluntary
10.	10(a)	Legality to distribute zakat- <i>wakalah</i> zakat	Statement on the <i>wakalah</i> * new	/	‘1’ if disclosed and ‘0’ if not disclosed
	10(b)	Statement on <i>asnaf</i> beneficiaries of zakat	General statement	Mandatory requirement under FRIBI 2019, Paragraphs 11.5 and 11.6(b)(iii); or FRDFI 2012, Paragraph 10.6(b)(iii)	‘1’ if disclosed and ‘0’ if not disclosed
	10(c)	List of <i>asnaf</i> / beneficiaries of zakat and amount distributed to each group of recipients	Detail list	* new	‘1’ if disclosed and ‘0’ if not disclosed
	10(d)	Zakat as part of a CSR programme	General statement	Abd Samad and Said (2016)	‘1’ if disclosed and ‘0’ if not disclosed
	10(e)	List of zakat contributions as part of CSR activity with the amount contributed	Detailed list	* new	‘1’ if disclosed and ‘0’ if not disclosed

(continued)

Item	Zakat Disclosure Index	Explanation of Item	Source of Reference Mandatory	Type of Disclosure	Score
				Mandatory	
		CATEGORY B – Bank not liable to pay zakat		Total (Category A)	14
1.	SC attestation on IB is not liable for zakat	In Shariah Committee's Report	Abd Samad and Said (2016)	/	‘1’ if disclosed and ‘0’ if not disclosed
2.	Reasons for not paying zakat		Abd Samad and Said (2016)	/	‘1’ if disclosed and ‘0’ if not disclosed
3.	Zakat Policy	Disclosure of zakat obligation in the explanatory notes in the annual financial statements/under the Director's Report	Mandatory requirement under FRIBI 2019, Paragraph 11.6(b); or FRDFI 2012, Paragraph 10.6(b)	/	‘1’ if disclosed and ‘0’ if not disclosed
				Total (Category B)	1
					2

This study covered all 16 Islamic banks and six DFIs listed on the BNM official page (BNM, 2021). The selection of all DFIs under DFIA in this study was because they all offer Islamic financing products to consumers, whether partially (EXIM Bank) or fully-fledged (other than EXIM Bank). Nevertheless, MBSB (formerly known as Asian Finance Berhad till 2017) was excluded from the analysis because no zakat information was available in Asian Finance Berhad's financial statements for 2016 and 2017. This is for a fairer evaluation of the total scoring and evaluation. The list of the banks selected is presented in Table 3.

Table 3

List of Islamic Banks and DFIs in Malaysia

No.	Name	Abbreviation	Ownership	IB/DFI
1	Affin Islamic Bank Berhad	AFIBB	Local	IB
2	Al-Rajhi Banking & Investment Corporation (Malaysia) Berhad	ALRAJHI	Foreign	IB
3	Alliance Islamic Bank Berhad	ALIBB	Local	IB
4	AmBank Islamic Berhad	AMIB	Local	IB
5	Bank Islam Malaysia Berhad	BIMB	Local	IB
6	Bank Muamalat Malaysia Berhad	BMMB	Local	IB
7	CIMB Islamic Bank Berhad	CIMB	Local	IB
8	Hong Leong Islamic Bank Berhad	HLIBB	Local	IB
9	HSBC Amanah Malaysia Berhad	HSBC	Foreign	IB
10	Kuwait Finance House (Malaysia) Berhad	KFHMB	Foreign	IB
11	Maybank Islamic Berhad	MBBIB	Local	IB
12	MBSB Bank Berhad	MBSB	Local	IB
13	OCBC Al-Amin Bank Berhad	OCBC	Foreign	IB
14	Public Islamic Bank Berhad	PIBB	Local	IB
15	RHB Islamic Bank Berhad	RHB	Local	IB

(continued)

No.	Name	Abbreviation	Ownership	IB/DFI
16	Standard Chartered Saadiq Berhad	SCSB	Foreign	IB
17	Bank Pembangunan Malaysia Berhad	BPMB	Local	DFI
18	SME Bank	SME	Local	DFI
19	EXIM Bank	EXIM	Local	DFI
20	Bank Kerjasama Rakyat Malaysia Berhad	BKRMB	Local	DFI
21	Bank Simpanan Nasional	BSN	Local	DFI
22	Bank Pertanian Malaysia Berhad	AGRO	Local	DFI

Scoring the Disclosure Items

The third step was to evaluate the disclosure level through scoring. There are two approaches to developing a scoring scheme for assessing the disclosure level, which are weighted and unweighted approaches (Al-Shiab, 2003). The weighted approach gave a different weight to a different item and was subject to the user's judgment while the unweighted approach offered an equal weight to each item. Concerning this unweighted approach, two methods were available: (i) dichotomous and (ii) partial compliance. The dichotomous method (Cooke, 1989), an unweighted disclosure index, is where the item will score '1' if disclosed, '0' if not disclosed, or 'not applicable (n/a)' if irrelevant. In this method, when an item was irrelevant to the particular bank, the item would be dropped, and the entity would not be penalised for non-disclosure (Cooke, 1992). The ratio was calculated by dividing the total items disclosed by the maximum possible and relevant items applicable to the entity. This method is particularly relevant when measuring a firm's aggregate compliance level (Abdullah & Minhat, 2013; Tsalavoutas et al. 2010). Another method was the modified unweighted index or Partial Compliance (PC). According to Al-Shiab (2003), the degree of compliance for each standard was measured before equal weighting was given to each applicable standard to 'avoid the problem of unintentionally giving more weight to a standard with a larger number of items in the index'. The comparison of both methods is simplified in Table 4. In this study, the method chosen was partial compliance, where the weight of each group was equally the same. This approach was to avoid the biases on the larger number of items under the mandatory financial requirement, whereby both mandatory and voluntary disclosure and financial and non-financial information are equally important.

Table 4

Comparison of Two Disclosure Index Methods

Particular	Dichotomous (Cooke, 1989)	Partial Compliance (Al-Shiab, 2003)
Formula	$CS = \frac{T}{M} = \frac{\sum_{i=1}^m d_i}{\sum_{i=1}^n d_i}$ $CS_j = \text{Total compliance score of the entity; } 0 \leq CS_j \leq 1$ $d = 1 \text{ if the required information is disclosed and } 0 \text{ if not}$ $m = \text{Number of items disclosed}$ $n = \text{Maximum of required information which is expected to be disclosed}$	$PC_j = \frac{\sum_{i=1}^n x_i}{R_j}$ $PC_j = \text{Total compliance score for each company}$ $xi = \text{Total compliance for each section}$ $R_j = \text{Total number of required disclosure items}$
Scoring Result	$DI = \frac{6}{14} = 0.429$	$DI = \frac{\left(\frac{1}{3} + \frac{2}{5} + \frac{3}{6}\right)}{3} = 0.411$
For example, if a company disclosed:	<ul style="list-style-type: none"> • 1 item out of 3 for section A, • 2 items out of 5 for section B and • 3 items out of 6 for section C 	

ANALYSIS AND FINDINGS

ZDI of Islamic Banks

Focusing on the disclosure items as per Table 5, 29 items were identified under Category A, which were segregated into two parts: financial and non-financial information. Of all 29 items, 14 items were required to be disclosed by regulations (either by MASB Tr i-1 or BNM Policy Document of Financial Reporting of IBs and DFIs), while the other 15 items were voluntary. Overall disclosure was at

60 percent (an average of 17.33 items disclosed out of 29 items). Meanwhile, for Category B (bank not liable to pay zakat), only one item was under mandatory requirement, while two items were voluntary, making up three disclosure items. Overall disclosure was at 90 percent (an average of 2.69 items disclosed out of three items).

In Category A, almost all of the mandatory (M) items were disclosed either in financial statements, director's reports, Shariah Committee's Reports, integrated reports or sustainability reports, especially disclosure on Zakat Policy (item 7(a)), zakat method (item 1), zakat paid (item 3(d)), sources of zakat (item 5(a)) and disclosure on accounting requirements (item 6). The average/mean of Financial Mandatory (FM) items disclosed was 9.44 out of 11 items, while for Non-Financial Mandatory (NFM) items, it was 2.66 out of 3 items. As for the total Mandatory items, the average disclosure by 15 IBS and 6 DFIs was 12.1 out of 14 items, approximately 85 percent.

Voluntary (V) items were the least disclosed, averaging 5 out of 15. Nevertheless, Al-Homaidi et al. (2021) found that voluntary disclosure, including zakat, is important to improve the efficiency and quality of the banking institutions. None of the banks disclosed the detailed zakat computation (item 3(a)), balance of non-distributed zakat amount (item 5(c)) and reason for the balance of zakat not being distributed (item 5(d)). The average/mean of Financial Voluntary (FV) items disclosed was 2.66 out of 7 items, while for Non-Financial Voluntary (NFV) items, it was 2.96 out of 8 items. As for total Voluntary items, the average disclosure by 15 IBS and 6 DFIs was 5.22 out of 15 items, approximately 35 percent.

As for Category B, the average disclosure practice was 2.69 out of 3 items, which was approximately 90 percent. All four banks disclosed the mandatory items, but it did not happen for the voluntary items, specifically for item number (1), SC attestation. Al-Rajhi Banking & Investment did not disclose it at all, while Kuwait Finance House Malaysia Bhd disclosed it in 2016, 2017 and 2018, but not in 2019.

Table 5

Disclosure by Banks and Years – Overall

Bank	ANNUAL MEAN ZDI for each item/ construct				
	2019	2018	2017	2016	
Category A: Bank liable to pay zakat					
Ai. FINANCIAL INFORMATION					
1 Zakat method adopted	M	1.0	1.0	1.0	0.9
2 Zakat rate	V	0.7	0.7	0.7	0.7
3 Amount of Zakat					
3(a) detail computation	V	0.0	0.0	0.0	0.0
3(b) current zakat expense	M	0.9	0.9	0.9	0.9
3(c) zakat paid disclosed separately from taxation	M	0.9	0.9	0.9	0.9
3(d) Zakat paid	M	1.0	1.0	1.0	1.0
3(e) Provision for zakat/ zakat liability	M	0.9	0.9	0.9	0.9
3(f) any adjustments recognised in the period for zakat of prior periods	M	0.1	0.2	0.2	0.2
4 Zakat paid to zakat institutions					
4(a) Zakat paid to zakat institutions	M	0.9	0.8	0.8	0.7
4(b) Detail disclosure sorted by zakat authority and amount respectively	V	0.3	0.2	0.1	0.2
5 Zakat Fund					
5(a) Sources of Zakat	V	1.0	1.0	1.0	1.0
5(b) Uses of Zakat	V	0.4	0.4	0.4	0.3
5(c) Balance of zakah not distributed amount	V	0.0	0.0	0.0	0.0
5(d) Reasons for balance of zakah	V	0.0	0.0	0.0	0.0
6 Disclosure on the main Financial Statements					
6(a) Statement of Financial Position - zakat payables (if any)	M	0.9	0.9	0.9	0.9
6(b) Statement of Profit or Loss/ Income Statement - zakat expenses	M	0.9	0.9	0.9	0.9
6(c) Statement of Cash Flow	M	1.0	1.0	1.0	1.0
6(d) Notes to Financial Statements	M	0.9	0.9	0.9	0.9
count FM=Financial Mandatory	11	9.5	9.5	9.4	9.4
count FV=Financial Voluntary	7	2.4	2.3	2.2	2.2
Sub-total (Financial Information)	18	11.9	11.8	11.6	11.6
mean of the bank (FM)					9.44
mean of the bank (FV)					2.26
mean of the bank (FM & FV)					11.71

Bank	ANNUAL MEAN ZDI for each item/ construct				
	2019	2018	2017	2016	
Category A: Bank liable to pay zakat					
Aii. NON-FINANCIAL INFORMATION					
7 Zakat Policy					
7(a) Zakat Policy	M	1.0	1.0	1.0	1.0
7(b) Zakat Policy Document	V	0.4	0.3	0.2	0.2
7(c) Zakat policy Document made available to Public	V	0.1	0.1	0.1	0.1
8 Statement from the Board	V	0.4	0.4	0.4	0.4
Directors' Report - zakat obligation may alternatively be disclosed under this report.					
9 SC Attestation					
9(a) SC attestation that sources and uses of zakat according to Shariah - SC report	V	0.6	0.6	0.6	0.5
9(b) SC attestation that zakat has been computed according to Shariah - SC report	M	0.9	1.0	1.0	0.9
10 Beneficiaries					
10(a) Legality to distribute zakat - wakalah zakat	V	0.2	0.3	0.1	0.1
10(b) Statement on Asnaf/ beneficiaries of zakat	M	0.8	0.7	0.6	0.6
10(c) List on Asnaf/ beneficiaries of zakat and amount respectively	V	0.5	0.5	0.5	0.5
10(d) Zakat as part of CSR program	V	0.7	0.5	0.5	0.6
10(e) List of Zakat contribution as part of CSR activity with amount contributed	V	0.4	0.4	0.4	0.5
count NFM=Non-Financial Mandatory	3	2.7	2.7	2.6	2.6
count NFV=Non-Financial Voluntary	8	3.2	3.1	2.8	2.8
Sub-total (Non-Financial Information)	11	5.9	5.8	5.4	5.4
mean of the bank (FM)		2.66			
mean of the bank (FV)		2.96			
mean of the bank (FM & FV)		5.62			
OVERALL DISCLOSURE LEVEL					
Number of items disclosed	29	17.8	17.6	16.9	17.0
Overall mean		17.33			
Overall % (17.33/29)		60%			

(continued)

Category B: Bank not liable to pay zakat	ANNUAL MEAN ZDI for each item/ construct				
	2019	2018	2017	2017	
1 SC attestation on IB is not liable for zakat	V	0.5	0.8	0.8	0.8
2 Reasons for not paying zakat	V	1.0	1.0	1.0	1.0
3 Zakat policy	M	1.0	1.0	1.0	1.0
count M=Mandatory	1	1.0	1.0	1.0	1.0
count V=Voluntary	2	1.5	1.8	1.8	1.8
Total	3	2.5	2.8	2.8	2.8
	mean of M				1.00
	mean of V				1.69
	mean of M & V				2.69
OVERALL DISCLOSURE LEVEL					
Number of items disclosed	3	2.5	2.8	2.8	2.8
Overall mean					2.69
Overall % (2.69/3)					90%

As for the overall disclosure level by each bank, Table 6 ranks the banks according to the zakat disclosure level from the highest at the top to the lowest at the bottom of the table. From Table 6, the highest disclosure level for four consecutive years starting in 2016 was led by a DFI, namely EXIM Bank Group, at 76 percent, followed by Bank Islam Malaysia Berhad, an IB at 74 percent. The lowest percentage of disclosure was CIMB Islamic Bank Berhad, which had 34 percent. The disclosure level for banks that were not liable to pay zakat was appropriate, as all four banks disclosed more than half of the ZDI, and two of the banks were at the perfect level of 100 percent.

Table 6

Summary of Disclosure Level by Each Bank – Sort by the Overall Disclosure Level by Each Bank

No.	Banks	Number of Disclosed Items				Overall Mean of Disclosed Items	Overall % of Disclosed Items Per Total Items [Category A=29 items, Category B=3 items]
		Y2019	Y2018	Y2017	Y2016		
Category A: Bank liable to pay zakat							
	EXIM Bank Group [DFI]	19	23	23	23	22.00	76%
	Affin Islamic Bank Berhad [IB]	21	22	22	22	21.75	75%
	Bank Islam Malaysia Berhad [IB]	22	22	21	21	21.50	74%
	Bank Kerjasama Rakyat Malaysia Berhad [DFI]	24	21	21	16	20.50	71%
	Bank Muamalat Malaysia Berhad [IB]	19	20	20	20	19.75	68%
	Bank Pertanian Malaysia Berhad [DFI]	19	22	17	17	18.75	65%
	SME Bank Group [DFI]	21	17	17	17	18.00	62%
	Alliance Islamic Bank Berhad [IB]	17	17	17	19	17.50	60%
	Bank Pembangunan Malaysia Berhad [DFI]	18	17	16	18	17.25	59%
	Ambank Islamic Berhad [IB]	17	17	17	17	17.00	59%
	Maybank Islamic Bank Berhad [IB]	16	16	16	17	16.25	56%
	Public Islamic Bank Berhad [IB]	16	16	16	16	16.00	55%
	RHB Islamic Bank Berhad [IB]	19	16	14	14	15.75	54%
	OCBC Al-Amin Bank Berhad [IB]	15	14	14	15	14.50	50%
	Bank Simpanan Nasional [DFIs]	14	14	14	15	14.25	49%

(continued)

No.	Banks	Number of Disclosed Items				Overall Mean of Disclosed Items	Overall % of Disclosed Items Per Total Items [Category A=29 items, Category B=3 items]
		Y2019	Y2018	Y2017	Y2016		
	Hong Leong Islamic Bank Bhd [IB]	14	14	14	14	14.00	48%
	CIMB Islamic Bank Berhad [IB]	12	10	10	7	9.75	34%
	Mean of Category A	17.8	17.6	16.9	17.0	17.33	60%
Category B: Bank not liable to pay zakat							
	HSBC Amanah Malaysia Bhd [IB]	3	3	3	3	3.00	100%
	Standard Chartered Saadiq Bhd [IB]	3	3	3	3	3.00	100%
	Kuwait Finance House Malaysia Bhd [IB]	2	3	3	3	2.75	92%
	Al-Rajhi Banking & Investment [IB]	2	2	2	2	2.00	67%
	Mean of Category B	2.5	2.8	2.8	2.8	2.69	90%

It is revealed that most of the banks maintained the disclosure level over the four-year comparable period with a slight downward or upward trend. Nevertheless, CIMB Islamic Bank Berhad showed an obvious increase over time, although the bank was at the last rank among all banks in Category A. A similar trend was seen with Bank Kerjasama Rakyat Malaysia Berhad when the bank reached the top rank in 2019 from the 11th rank in 2016. The upward trend was also shown by almost all DFIs, except Bank Simpanan Nasional.

The analysis was further zoomed into the scores based on mandatory and voluntary financial and non-financial disclosure. Referring to groups (1) to (4) of Table 7, 'mandatory non-financial information' and 'mandatory financial information' scored 0.21 out of 0.25, the highest. In contrast, 'voluntary financial information' and 'voluntary non-financial information' were recorded at 0.08 and 0.09, respectively. When comparing the 'mandatory' versus 'non-mandatory' score, 'mandatory' disclosure scored more than double of 'voluntary'.

The analysis further looked into the scoring of groups (5) and (6). Once again, the mandatory information score was higher than voluntary (0.43 and 0.17, respectively). From the other perspectives of financial versus non-financial information, the score was almost similar, 0.33 versus 0.25. This outcome proved that financial and non-financial data have a similar weightage in zakat information available in banks' annual reports. Deep into each bank's scores, it can be summarised that Affin Islamic Bank Berhad scored the highest of all commercial Islamic banks, while EXIM Bank and Bank Kerjasama Rakyat Malaysia Berhad led the DFIs interchangeably. Even to a certain extent, these two banks led the whole population of IBs and DFIs. Analysing the score for Category B (bank not liable to pay zakat), a perfect score was shown by the mandatory disclosure, while voluntary disclosure presented a nearly perfect score, which was 0.42 out of 0.5. The total score for Category B was 0.92, or 92 percent.

It is indeed very true that disclosure is always associated with cost, whether mandatory or voluntary. Failure to comply with mandatory requirements could increase the risk, i.e., legal risk, while disclosing more voluntary information could increase the monetary cost of gathering precise information. According to Dye (1990), the presence of disclosure costs reinforces the effort to refrain from engaging in the particular disclosure. As such, the bank would prefer to avoid risk by disclosing all mandatory items and avoid increasing costs by minimising voluntary information.

Table 7

Summary of Scoring Using Partial Compliance Method (PCM)

Groups	Number of Items	Number of Items Disclosed (average)	Unweighted percentage for each group	Score $PC_j = \frac{\sum_{i=1}^j xi}{Rj}$
(1) Mandatory financial information	7	2.3	25%	$\frac{9.4}{11} \times 25\% = 0.21$
(2) Voluntary financial information	7	2.3	25%	$\frac{2.3}{7} \times 25\% = 0.08$
(3) Mandatory non-financial information	3	2.7	25%	$\frac{2.7}{3} \times 25\% = 0.21$

(continued)

Groups	Number of Items	Number of Items Disclosed (average)	Unweighted percentage for each group	Score $PC_j = \frac{\sum_{i=1}^n x_i}{R_j}$
(4) Voluntary non-financial information	8	3.0	25%	$\frac{3}{8} \times 25\% = 0.09$
Total item/ construct	29	17.4	100%	0.60
(5) Mandatory information	14	12.1	50%	$\frac{12.1}{14} \times 50\% = 0.43$
(6) Voluntary information	15	5.2	50%	$\frac{5.2}{15} \times 50\% = 0.17$
Total item/ construct	29	17.3	100%	0.60
(7) Financial information	18	11.7	50%	$\frac{11.7}{18} \times 50\% = 0.33$
(8) Non-financial information	11	5.6	50%	$\frac{5.6}{11} \times 50\% = 0.25$
Total item/ construct	29	17.3	100%	0.58
Category B: Bank not liable to pay zakat				
(9) Mandatory information	1	1.0	50%	$\frac{1.0}{1} \times 50\% = 0.5$
(10) Voluntary information	2	1.7	50%	$\frac{1.7}{2} \times 50\% = 0.42$
Total item/ construct	3	2.7	100%	0.92

CONCLUSIONS

In using ZDI as a measuring tool, the average disclosure level was at 60 percent with mandatory disclosure, showing a higher compliance rate (43%) than voluntary disclosure (17%). Analysing the disclosure level of financial versus non-financial information, the score was not much different where financial information scored 33 percent while non-financial information scored 25 percent. Looking into the disclosure level of each bank, Affin Islamic Bank Berhad scored the highest of all commercial Islamic banks. At the same time, EXIM Bank and Bank Kerjasama Rakyat Malaysia Berhad led the DFIs interchangeably, and even in a certain analysis, these two banks led the whole population of IBs and DFIs.

32 ZDI items were divided into Category A for banks liable to pay zakat (involving 29 items and 18 banks) and Category B for banks not liable to pay zakat (involving three items and four banks). All IBs and DFIs under this study's scope disclosed relevant information on zakat. Out of 18 banks in Category A, only three banks had disclosed less than half of the items in the ZDI. However, the percentage was not significantly low, ranging from 33.6 percent to 49.1 percent. Meanwhile, four banks under Category B did well by disclosing more than half; to be exact, two of them scored 100 percent. Third, a comparison between IBs and DFIs showed that the average disclosure level by DFIs was a bit higher than the IBs, which was 63 percent compared to 58 percent.

The limitations of this study are twofold. Firstly, the study period was only four years, 2016 to 2019. Secondly, the main source of analysis was the published annual reports, integrated reports, and/or sustainability reports of the entities besides the audited financial statements. Some entities might use its bulletin, magazine, official website and other methods of communication but those sources were not covered in this study.

This study is important to stakeholders, especially banks' shareholders, in getting the relevant and truthful representation of financial and non-financial data disclosed in corporate reporting on zakat information. Having an index that can be used as a standardised measure could increase the comparability amongst reporting entities. This study is also essential to regulators in evaluating the adequacy of current regulations and guidance and to perform necessary regulatory actions towards upholding *maqasid shariah* in reporting. Additionally, the ZDI developed may be applied to other Islamic institutions that pay zakat. Therefore, future studies can consider other business institutions that pay zakat as the research population or samples.

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