

Disclosure of Zakat information: Is it Important?

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Abstract

Zakat has been emerges in Muslim economic since the rule of Prophet Muhammad and becoming the best solution in bridging the gap between the rich and the poor. To date Zakat is still becoming the best tool in combating poverty. However with the abundant of zakat fund collected it is now crucial for the appointed organization in this case Zakat institutions to explain to the public on the management of Zakat fund. Focusing on Malaysia, public is concerned on the management of Zakat fund. They do question on how the Zakat money was managed and whether it does reached the qualified asnaf. Therefore this paper aims to explore the breadth and depth of Zakat information dissemination by Zakat institutions. The discussion focused on the available information provided to the public and why such it is crucial for such information to be disclosed. In brief, this study also covers the explanation on how Zakat become important part in Muslim economy. This study provides public and stakeholder first-hand information regarding the management of Zakat fund in Malaysia.

Keywords: Zakat fund, Muslim economy, asnaf, Zakat information

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Introduction

Zakat institutions in Malaysia hold a huge responsibility in managing Zakat money collected from the Zakat payer. This Zakat money will then be distributed to the qualified asnaf according to the portion. In total there are eight qualified asnaf which eligible to receive the Zakat money including the institutions itself under amil classification. Although there is no specific requirement on whether Zakat money should be distributed equally to these eight qualified asnaf the basic distribution is 1/8 to each group. However it is now publicly debate in informal media where Zakat money was not properly distributed.

Referring to Zakat institutions, it is well known that these institutions are non-profit organizations. Again, even there are no specific guidelines on how Zakat money should be reported. The current scenario shows lack of proper information dissemination provided by Zakat institutions. This situation left public in quest on how this money was managed. In fact the management of Zakat money varies according to the state. Thus it can be seen that there is a variety of reporting approach adapted by Zakat institutions state wise.

Looking at both situation, it shows public are curious with the management of Zakat money. They seems hunger for detail information from Zakat institutions. The public specifically the payer and recipients are in desperate needs for Zakat information dissemination. In fact complete information provided by Zakat institution is important for the institutions image. Considering this, the aim of this study is to explore the current Zakat information available for public viewing. Further the discussions were extended to the importance of being transparent and provide useful information for public viewing. The information gathered through available sources and interview with relevant officers lead to the outcome that Zakat institutions do managed Zakat fund in ethical manner and based on Shariah compliance.

Further discussion presented as follows: next section covers the brief discussion on past literature followed by the methodology section. Discussions sections provide details explanation on data gathered through document analysis and interview while final section conclude the study.

Literature review

A large amount of studies has been devoted to observe the development of Zakat in Malaysia (Mahmud, 1991; Ismail, 2007; Khairi and Mohd Noor, 2012). These studies focused on the discussion on Zakat in term of collection, distribution and overall management of Zakat fund. Before understand in depth on the knowledge of Zakat it is worth to understand the detail concept of Zakat. Zakat usually described as an act of worship to Allah which assists Muslim in the process of purifying wealth, cleansing their soul and mind as well as benefits themselves to others which also being highlighted as a good Muslim (Bowen, 1993). In fact through Zakat Muslims learn the beauty of sharing concept where the rich shares their wealth with the poor thus reduced the wealth inequality (Abu Bakar, 2007). Commonly when thinking about Zakat recipient people always think about the poor (Ibrahim, 2008; Abdul Rahman, 2012; Ab Rahman et.al, 2012, Mohd Ali et.al, 2013; and Embong et.al, 2013). In fact the studies highlighted above emphasize on the failure of poverty eradication although

Zakat collection increase every year. Adding to this, other than amil, poor and needy studies also neglected that there are other five groups of asnaf whom are eligible for Zakat fund to include new converters, slave, debtor, Fi-Sabilillah and Wayfarer also share the same right on the Zakat money.

The synergy of Zakat fund is not only stop at individual level; purifying once wealth or enhance the quality of life of the recipients, but also can be extended in macro level. Studies by Suhaib (2009), Sarea (2012), Darma et.al (2012) and Hoque, et.al (2015) extend the discussion on Zakat at macro level by looking at the contribution of Zakat on economy. Sarea (2012) for instance suggest that Zakat can be a proper measure of economic growth. This is when people are able to pay Zakat; it shows that the economy is in good condition. Adding to this Darma et. al (2012) explains that Zakat can be a source of development funding, which further facilitate better functioning of local organizations and social capital formation. This is further supported by Hoque et.al (2015) in most recent work which focuses on the discussion of Zakat as an economic aid which assist economic transformation.

Based on the above discussion, a large amount of literature focus on Zakat discussion in term of managing the collection and distribution expect. However lack of studies address the important of providing the information to the public. Seminal paper by Adnan and Abu Bakar (2009) initiate the importance of accounting treatment in this case for corporate Zakat. The study found out that there is a misconception of Zakat when referring to the standards and regulations. It is proven in profit organization that ease accessibility of information may contribute to high income (Akhigbe et.al, 2013). As non-profit organization, although Zakat institutions operation was not with the aim to gain high profit, it deals with the organizations trustworthiness by the payers and recipients. Prudent financial report should be in placed to tell the public about the institutions, and how honestly the fund was managed. Although improvements have been made by Zakat institutions on the operation which covers the collection and distribution, it will not reach the public if these changes are not well communicated to them.

Data Collection Method

The data was gathered in two phases. First phase related to compilation of data through published documents by Zakat institutions. The main document used to for document analysis was the Laporan Zakat PPZ-MAIWP for the period of 2007 to 2014. To strengthen the discussion open ended interview with selected Zakat officers was conducted. Officers directly involved with the preparation of financial statement for three Zakat institutions which are Majlis Agama Islam Kelantan (MAIK), Majlis Ugama Islam Dan Adat Resam Melayu Pahang (MUIP) and Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) were selected to provide firsthand information regarding the reporting matters.

Discussions

The discussion of output of this study will be divided into two sections. The first section focuses on the descriptive data on the availability of Zakat information to be assessed by the public. During the collection of available annual report produced by

Zakat institutions, we are unable to retrieve annual report for most of the state as listed in Table 1. This table shows the annual report released by Zakat institutions for each state from 2007 until 2014. Based on the observation, only 7 from 14 states in Malaysia have consistently released their annual report from 2007 to 2014. However the situation is getting better where in 2004 only 4 states did not provide public access to their information.

Since zakat fund is managed by each state, there is no standardization in issuing annual report. In fact the financial data comprises of details on how Zakat fund is recorded not being provided in the annual report as we can usually see in profit organization annual report. Based on the review of available documents and looking at this data, transparency and reliability of annual report has been and still is a severe problem in Zakat institutions. The reason that may contribute to these is when there is no obligation for Zakat institution to publish the report for public viewing. They only answerable to a council and the council are answerable to the ruler of each state. The states that produced the annual report and give the public free access did this on voluntary basis. However there are some states did not give any access to the report due to autocracy issue.

Year	2007	2008	2009	2010	2011	2012	2013	2014
Johor	X	X	X	X	X	X	X	X
Kedah	X	X	X	X	X	X	X	√
Kelantan	X	X	X	X	√	√	√	X
Melaka	X	X	X	X	X	X	X	√
Negeri Sembilan	√	√	√	√	√	√	√	√
Pahang	√	√	√	√	√	√	√	√
Pulau Pinang	√	√	√	√	√	√	√	√
Perak	√	√	√	√	√	√	√	X
Perlis	X	X	X	X	X	X	X	X
Selangor	√	√	√	√	√	√	√	√
Terengganu	X	X	X	X	X	X	X	√
Sabah	√	√	√	√	√	√	√	√
Sarawak	X	X	X	X	X	X	X	√
Kuala Lumpur	√	√	√	√	√	√	√	√

Table 1: : Availability of Zakat Institutions Annual Report for each state for the period of 2007 to 2014.

Table 2 shows the data of Zakat collection and distribution in from 2010 to 2014. Based on the information provided in the table there are situation where Zakat distribution are over collection or Zakat distributed not even reach 50% from the amount collected. This table triggers confusion on how exactly the Zakat fund is managed and if there is an excess amount of Zakat where it will be located. It is clear that Zakat should be distributed to the eligible asnaf and the amil or Zakat institutions are also eligible for Zakat portion. Thus if the amil has already received the eligible portion, the excess amount should be distributed among the other seven eligible asnaf. However when the annual report of one Zakat institutions is scrutinize, it is found out that the excess amount is recorded as income for the institutions. On surface, it seems that Zakat institutions received more than what they are eligible for. This issue may

create a negative perception in the society concerning the management of zakat fund. The Zakat payer and Zakat recipients may not be satisfied with the distribution aspect of zakat, especially the issue of undistributed zakat.

	2010		2011		2012		2013		2014	
	C	D	C	D	C	D	C	D	C	D
	In millions									
Johor	122	110	137	165	172	143	199	160	196	NA
Kedah	77	66	106	80	106	92	109	96	121	106
kelantan	70	64	94	80	113	101	NA	NA	NA	NA
Melaka	34	31	38	34	44	49	53	NA	55	57
Negeri sembilan	50	48	58	59	65	61	75	77	84	98
Pahang	81	59	89	58	103	68	116	NA	103	110
Pulau Pinang	54	54	62	55	77	69	85	73	84	80
Perak	70	67	86	77	100	83	NA	NA	NA	NA
Perlis	38	30	62	43	79	NA	NA	NA	NA	NA
Selangor	337	330	394	366	451	402	517	463	562	596
Terengganu	76	62	88	65	107	85	121	67	114	67
Sabah	33	26	34	32	49	37	49	48	NA	NA
Sarawak	39	24	44	27	51	NA	69	35	NA	NA
Kuala Lumpur	283	201	349	247	410	272	492	328	533	NA
TOTAL	1,364	1,172	1,641	1,388	1,927	1,462	1,885	1,347	1,852	1,114

Table 2: Total collection and distributions of Zakat from 14 states in 2010 to 2014

Source: Laporan Zakat 2010 – 2014 MAIWP

Note: C and D represent collection and distribution respectively.

Due to the curiosity on how Zakat fund was managed by Zakat institutions this study proceed with interview session with selected Zakat officers in MAIK, MUIP and MAIDAM. The general idea of this interview session is to answer the confusion raises from the document analysis. Referring to the management of annual Zakat collection, the officers emphasize that the problem with the data that shows huge undistributed amount is when too much Zakat payment received at the end of the year e.g. December. This resulted to the inability of the institutions to distribute the amount to eligible asnaf. However this does not represent whole case as distributions process are based on budgeted allocation which been made in previous month or year. So distribution spending are not based on current year collection but previous year collection. Further this also caused the condition where Zakat distributed is more than what is collected. The problem with the reporting is any undistributed amount is not clearly disclosed in the annual report. However the officers do mentioned that the amount is separated and will be used solely for the eligible asnaf. The detail information is kept by the accounting officers whom managed Zakat collection and distribution. On the other hand, there are cases of the distributed amount are not disclosed. In fact the person whom uncharged on the reporting does not disclosed the undistributed amount to distribution division. Thus the distribution division does not aware on the figure of undistributed amount. The information on the usage of undistributed amount to support the other expenses apart of the direct distribution to eligible asnaf usually not being directly disclosed.

The above discussion shows in brief the management of Zakat fund and the availability of data to be retrieved by public. It is thus argued here that it is a need for Zakat institutions to be transparent in providing information on the management of Zakat fund. The report should detail out on how each Zakat collected was spent and

the percentage of Zakat distributed to each eligible asnaf including the amil. Another possible suggestion is Zakat collection and distribution should be recorded separately and the undistributed amount will be disclosed in that report. This can help to clear public misconception on the way Zakat fund was managed. In addition, despite the Zakat fund was managed statewide, it does not cause any harm for all Zakat institutions to have uniformity in the way of Zakat fund reporting unlike the current situation where different states used different treatments. By circulating the financial report only for internal access where the public just has to rely with the limited amount of information can cause public misconception.

Conclusion

As discussed earlier this study was conducted with the aim to expose the public on the Zakat information dissemination by Zakat institutions. Throughout the observation and interview session, it is found out that there is no consistency of reporting among Zakat institutions in Malaysia. Some give consent for public viewing and some for internal access only. It is believed that Zakat institutions will find it useful if they provide a clear picture to the public on the financial reporting of Zakat fund. This has led to public misconception towards Zakat institutions on how they manage the fund. Detailed observation on their reports shows that Zakat money was properly managed by the institutions. In fact it is also being distributed to qualified asnaf. The misconception only exists when the public is left with a limited amount of information for public viewing. Overall this study is hoped to shed some light on how Zakat institutions should disclose the information for public viewing and why it is so important for their reputation. Besides, this is of importance not only for the image of Zakat institutions but also to encourage payers to pay Zakat through Zakat institutions.

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