



Original Article

Enhancing financial accountability of Islamic philanthropic organizations through financial disclosure

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ABSTRACT

Philanthropic organizations or known as non-profit organizations in Malaysia currently having a high growth from its first existence from decades ago. The growth creates, among others, an issue on accountability especially on financial accountability. The aim of this article is to discuss the concept of accountability related to Islamic philanthropic organizations. This article also highlights financial disclosure as one of the mechanisms to ensure financial accountability in these institutions. Discussion of this paper opens to potential development of specific financial disclosure for Islamic philanthropic organizations, which could become one of the tools for trustees to discharge its accountability.

Keywords: Philanthropic organizations, financial accountability, financial reporting, disclosure management

Introduction

The growth of non-profit organizations expands from a simple identification as a body that assembling a group of society that shares same goals towards a more comprehensive and structured organization that carrying those shares interest into programs and activities. However, as far as the growth takes place, issues and problems also arise in line with the growth of non-profit organization itself. One of the main issues is about accountability aspect especially in financial accountability.

Previous studies suggest that there are five key mechanisms to identify whether a non-profit organization had practices a good accountability which are: (1) reports and disclosure statements; (2) performance assessments and evaluations; (3) participations; (4) self-regulations; and (5) social audits.¹The most related key mechanism with financial accountability is financial reporting and disclosure managements.

Thus, this article focuses on the concept of financial accountability for Islamic philanthropic organizations in Malaysia by concentrating on financial reporting and

¹ Ebrahim, Alnoor. "Accountability in practice: Mechanisms for NGOs." *World Development* 31, no. 5 (2003): 813-829.

disclosure managements. It begins with an overview of philanthropic organizations from the Islamic perspective, followed by the next section which focuses on philanthropic organizations in Malaysia. Then, it continued with the concept of accountability including accountability in Islam. This accountability is then further discussed on the importance of accounting practices for financial accountability and finally how to enhance financial accountability through financial reporting and disclosure management.

Overview of philanthropic organizations from Islamic perspective

Philanthropy can be defined as a noble work by an individual or a group of individual regardless of the contributions that had been made to other people or community. Philanthropy can also be described as kind, pleasant, helpful, charity, voluntary, and aid. Philanthropy can also be defined as contributions made by an individual or group in terms of time, money, labor, ideas and other things in a sincere manner without any coercion and not expecting any rewards from the recipients.

Philanthropic acts are not just about good behavior of an individual, but it is also taught in religion. For example, in Islam, there are several Quranic verses on voluntary acts such as verse 3:92 which is translated: *"Never will you attain the good [reward] until you spend [in the way of Allah] from that which you love. And whatever you spend - indeed, Allah knows of it."*

Another encouragement for voluntary work also can be found in verse 2:280, thus: *"And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew."* All of these voluntary acts are guaranteed for a great rewards from Allah as stated in verse 12:88, thus: *"So when they entered upon Joseph, they said, "O 'Azeez, adversity has touched us and our family, and we have come with goods poor in quality, but give us full measure and be charitable to us. Indeed, Allah rewards the charitable."*

These verses come with the command or encouragement for Muslims to carry out voluntary or charity acts or *sadaqah* by helping others especially for those in need. These verses also stated that these voluntary or charity contributions will be rewarded by Allah.

Besides these verses, Prophet Muhammad also encouraged these *sadaqah* activities in various activities or types of *sadaqah* as stated in these two hadiths:

*"On every person's joints or small bones (i.e. fingers and toes), there is sadaqah (charity) every day the sun rises. Doing justice between two people is sadaqah; assisting a man to mount his animal, or lifting up his belongings onto it is sadaqah; a good word is sadaqah; every step you take towards prayer is sadaqah; and removing harmful things from pathways is sadaqah."*²(Narrated by Imam Bukhari and Imam Muslim)

"O Messenger of Allah, the rich have taken away all the rewards. They observe the prayer as we do, and they keep the fasts as we do, and they give sadaqah (charity) from their surplus riches." Upon this he (the Prophet) said: "Has Allah not prescribed for you (a course) by following which you can also do sadaqah? Verily in every tasbeeh(i.e. saying Subhanallah) there is

²Nawawi, Muhyiddin Yahya bin Syaraf. "HADITS ARBA'IN NAWAWIYAH." (2007).

*a sadaqah, every takbir (i.e. saying Allahu Akbar) is a sadaqah, every tahmid (i.e. saying Alhamdulillah) is a sadaqah, every tahlil (i.e. saying Lailahaillallah) is a sadaqah, enjoining of good is a sadaqah, forbidding of evil is a sadaqah, and having sexual intercourse with your wife is a sadaqah. They (the Companions) said: "O Messenger of Allah, is there reward for him who satisfies his sexual passion among us?" He said: "Tell me, if he were to devote it to something forbidden, would it not be a sin on his part? Similarly, if he were to devote it to something lawful, he should have a reward."*³(Narrated by Imam Muslim)

These encouragements for doing voluntary or *sadaqah* acts as stated by Prophet Muhammad are aligned with the verses from Qur'an highlighted before. These voluntary or *sadaqah* acts is a sign for Muslims to not only focus on self-development but is also a sign for Muslims to make sure that other people are not being left behind in their lives.

Over time, these voluntary or *sadaqah* acts have been a part of human actions in their lives. These voluntary or *sadaqah* acts are carried out with various aims and goals, whether by individually or structured organizations. These organizations are known as philanthropic organizations are established for assembling people who share similar interests and goals which are to make a voluntary or *sadaqah* contributions to those in need.

The beginning practices of philanthropic organizations especially for Islamic countries were started with the basic stages of Islamic social and intellectual life. One of the pillars of *iman* in Islam is the belief in the Day of Judgement (hereafter) which requires a Muslim to perform pious deeds in seeking for rewards for every act as a supply for the Hereafter.⁴ This thought of being rewarded in the Hereafter leads Muslims to perform good deeds in order to please Allah. For this purpose, every Muslim will perform additional good deeds, and doing voluntary or *sadaqah* acts is one of it.

The establishment of Islamic philanthropic organizations is believed to have started around the year 755, during the 2nd and 3rd Islamic century.⁵ Prior to this, the Islamic civilization was capable of providing public goods and services as the society under the Islamic civilization was not so large in population and complex in term of organization. However, as the Islamic civilization expanded as part of the *jihad* of spreading Islam, the community became larger and more complex with the assimilation of various races. The situation of the day led to the establishment of Islamic philanthropic organizations by rich merchants to help the needy in the community, and as part of their religious duties in helping to spread the Islam.

The developments of Islamic philanthropic organizations expanded to other objectives and goals. Schools, hospitals, mosques, universities, foundations and other types of philanthropic organizations are built by using this voluntary or *sadaqah* concept in the Islamic civilization.

³Nawawi, Muhyiddin Yahya bin Syaraf. "HADITS ARBA'IN NAWAWIYAH." (2007).

⁴Babacan, Mehmet. "Economics of Philanthropic Institutions, Regulation and Governance in Turkey." *Journal of Economic and Social Research* 13, no. 2 (2011): 61-89

⁵Kuran, Timur. "The provision of public goods under Islamic law: Origins, impact, and limitations of the waqf system." *Law and Society Review* (2001): 841-898.

In general, there are no reliable figures to measure the contributions by these philanthropic organizations in term of voluntary or *sadaqah* in Muslim communities and countries, but it is estimated to be a total of between \$250 billion to \$1 trillion annually.⁶ This estimate takes into account approximations of per capita giving in some countries, per capita incomes in Muslim majority countries, religious, injunctions to donate at least 10 percent of one's income to charity and other factors.

Philanthropic organizations in Malaysia

As an Islamic country and one of the 57 state members for Organization of the Islamic Conference (OIC), Malaysia has various types of non-profit organizations including Islamic philanthropic organizations. In general, all non-profit organizations in Malaysia can be categorized into four main categories, which are: (1) societies; (2) associations; (3) foundations; and (4) companies limited by guarantee (CLBG).

For each category of non-profit organizations, different laws and regulations are used depending on the structure and characteristic of the non-profit organization itself. These non-profit organizations may be registered or incorporated either under the Trustee (Incorporation) Act 1952, Companies Act 1965, Societies Act 1966 or States Enactment.

In general, for non-profit organizations with revenue less than RM1 million will be registered under the Registry of Societies Malaysia (ROS), and are bound legally by the Societies Act 1966. For non-profit organizations with revenue more than RM1 million, they will normally be registered as companies limited by guarantee (CLBG). This type of non-profit organizations is registered under the Companies Commission of Malaysia (CCM), and is bound legally by the Companies Act 1965.

Until end of August 2014, there are about 1,958 of non-profit organizations that had been registered with the CCM as companies limited by guarantee.⁷ From this figure, 763 or 39% of the non-profit organizations are using the word "Berhad" and the balance of 1,195 or 69% of the non-profit organizations are not using the word "Berhad" for their organization's name.

The CCM had categorized these non-profit organizations into 11 categories which are: (1) recreation; (2) entertainment; (3) trade; (4) industry; (5) arts; (6) science; (7) religion; (8) welfare; (9) pension schemes; (10) superannuation schemes; and (11) others, which benefit the society and community at large such as health, environment, education, research, social and sports.⁸

Meanwhile, there were about 73,994 applications for registration of non-profit organizations with the ROS within year 2012 until October 2014. This comprised from 9,878

⁶Alterman, Jon B., Shireen Hunter, and Ann L. Phillips. *The idea and practice of philanthropy in the Muslim world*. US Agency for International Development, 2005.

⁷Ramly, Rezylzwan. Seminar Kebangsaan "Compliance of NPO – Company Limited by Guarantee (CLBG): Issues and Challenges." Companies Commission of Malaysia, (2014).

⁸ Companies Commission of Malaysia Annual Report 2013

applications in year 2012, 42,145 applications in year 2013 and 21,971 registrations until October 2014.⁹ This figure shows that non-profit organizations in Malaysia have a tremendous growth.

The ROS had categorized these registered non-profit organizations into 10 categories which are: (1) political organizations; (2) welfare organizations; (3) social organizations; (4) recreation organizations; (5) arts and cultural organizations; (6) human right organizations; (7) trading organizations; (8) security organizations; (9) religious organizations; (10) professions organizations; and (11) other organizations.¹⁰

Besides that, there also some non-profit organizations especially for Islamic non-profit organization are regulated under state government such as state zakat department, State Religious Islamic Councils (SRICs), *waqf* institutions, state Islamic religious schools, mosques, *baitulmal* and others.

All of these non-profit organizations in Malaysia also receive special treatment especially tax exemption by the government similar to other non-profit organizations in other countries in the world.

By looking at this emerging trend in the non-profit sector in Malaysia, we can see that the community especially the Muslims have started to give much consideration to these charitable and voluntary acts. Therefore, in order to preserve and sustain these noble deeds, accountability for these non-profit organizations is one of the important values to be considered.

Accountability

Accountability is generally referred as an action of being accountable for an obligation or willingness to accept a responsibility or to account for one's action. Accountability is about answerability, blameworthiness, liability and the expectation of account giving from a person to another person.¹¹

Accountability is believed to be made of two set of responsibilities which are responsibilities to make an action and responsibilities to give account for those action that had been taken. These set of responsibilities entails between the one who responsible to accountable for the action and the one who responsible to receive the report of action.¹²

Accountability in organization can be categories into three categories which are: (1) financial accountability; (2) fairness accountability; and (3) performance accountability.¹³ Financial accountability is about completely making and keeping track of transaction records of the organization. Financial accountability mainly focuses on the management of funds. Fairness accountability is about operating the organization as required by regulations and

⁹ Registry of Societies Malaysia (ROS) Website: <http://www.ros.gov.my/home.html>, accessed on February 5, 2015.

¹⁰ Registry of Societies Malaysia (ROS) Website: <http://www.ros.gov.my/index.php/en/semakan-pendaftaran>, accessed on February 5, 2015.

¹¹ Dykstra, Clarence A. "The Quest for Responsibility." *American Political Science Review* 33, no. 01 (1939): 1-25

¹² Osman, Ahmad Zamri. "Accountability in managing waqf properties: the case of two State Religious Councils in Malaysia." PhD diss., University of London, 2012.

¹³ Behn, Robert D. *Rethinking democratic accountability*. Brookings Institution Press, 2001.

laws. Fairness accountability mainly focuses on achieving organization's objectives and goals. Performance accountability is about the operation results for an organization. Performance accountability focuses on the results or achievement made by an organization.

From the perspective of Islam, accountability can be viewed from two perspectives which are: (1) humanity's accountability to Allah; and (2) humanity's accountability to other people.¹⁴ Accountability to Allah or *hablumminallah* is derived from concept of *khalifah* (vicegerent) and concept of *amanah* (trust) when a human worship God and fulfils all the duties as *khalifah* on this world. Accountability to other people or *habulminannas* is generally known as accountability contract among people. These two accountability perspectives must be performed in other to obtain a good accountability in Islam.

In addition, according to the ownership concept in Islam, all resources belong to Allah, while humans as *khalifah* are entitled to hold the responsibility in managing these resources.¹⁵ Thus, any resources especially financial resources made available for Islamic religion-based organization must be treated as *amanah*.

The contract of responsibility among people regarding this accountability include all accountability to people who are related to the organization whether internal or external such as donors, *mutawalli* (the one who manage the organization), recipients (the needy), board of trustees or board of directors, voluntary staffs, society or community, government and others.

A *mutawalli* who is accountable in managing the voluntary or *sadaqah* funds and assets cannot violate *shariah* rules.¹⁶ By fulfilling the objectives and goals of non-profit organizations, the *mutawalli* would fulfil his accountability. Accountability is also stated in verse 5:1: "*O you, who believe, fulfil all obligations.*"

In other verses of the *Quran*, Allah already stressed this accountability by using the word "*hisab*". This *hisab* or 'account' is the root of accounting and the references in the *Quran* are to 'account' in its generic sense, relating to one's obligation to 'account' to God on all matters pertaining to human endeavour for which every Muslim is accountable.¹⁷

Hisab is repeated at least eight times in *Quran*, and one of it is in the following verse 40:40, translated thus: "*Whoever does an evil deed will not be recompensed except by the like thereof; but whoever does righteousness, whether male or female, while he is a believer - those will enter Paradise, being given provision therein without account.*"

In another verse, that is 65:8, Allah states that: "*And how many a city was insolent toward the command of its Lord and His messengers, so we took it to severe account and punished it with a terrible punishment.*"

¹⁴Ibrahim, Shahul Hameed bin Mohamed. "The need for Islamic accounting: perceptions of its objectives and characteristics by Malaysian Muslim accountants and accounting academics." PhD diss., University of Dundee, 2000.

¹⁵Baydoun, N., and R. Willett. "Islam and accounting: Ethical issues in the presentation of financial information." *Accounting, Commerce & Finance: the Islamic Perspective Journal* 1, no. 1 (1997): 1-25

¹⁶Ihsan, Hidayatul. "Towards the Improvement of Waqf Accountability in Indonesia: A Critical Review of the Act No 41/2004 on Waqf." *JURNAL AKUNTANSI & MANAJEMEN* 2, no. 2 (2012): 73-80

¹⁷Askary, S., and F. Clarke. "Accounting in the Koranic verses." In *Accounting, Commerce and Finance: the Islamic Perspective International Conference, University of Western Sydney, Macarthur*. 1997

In addition, Prophet Muhammad also stressed about the concept of accountability as one of the important elements that a Muslim needs to deal with it in following hadith:

*"Every one of you is a guardian and is held accountable for that which he is entrusted. A ruler is a guardian and is held accountable for that which is in his care. A man is a guardian in respect of his household; a woman is a guardian in respect of her husband's house and his children. Therefore, each one of you is a guardian accountable for whatever is in your care."*¹⁸ (Narrated by Imam Bukhari and Imam Muslim)

Based on the above verses and hadith, accountability is an important element especially for an individual or organization that been given responsibilities to perform *amanah* entrusted on them. The success in carrying *amanah* is not just by gaining public trust but also being rewarded by Allah as stated in the above verses.

Accounting practices and financial accountability

As mentioned before, accountability can be categorized into financial accountability, fairness accountability and performance accountability. These categories of accountability can be evaluated by using accounting as a measurement tool. Despite of financial or managerial accounting, both are equally important to ensure the accountability exist in an organization. This is undeniable fact as one of the primary objectives of accounting is to aids accountability.¹⁹ This shows that accountability cannot be exist without proper accounting practices or in other words, the survival of the accountability in an organization are depending on accounting practices in those organization. By having a good accounting practices in an organization will lead to a good accountability especially in financial accountability.

Basically, accounting practices in non-profit organization had been done without proper practices. This is due to lack of expertise or professional knowledge in accountant among the *mutawalli*, voluntary staffs or the board of directors or board of trustee itself.²⁰

Since voluntary or *sadaqah* funds and assets come from the public funds, the basic of reporting and performance measurement is crucial which are related closely with financial accountability. Therefore, people who had interest with non-profit organization need to have an adequate knowledge in both financial and management accounting in order to gain a good financial accountability level.

Financial accountability can be achieved when a non-profit organization are implementing an appropriate financial management system.²¹ A good financial management system will ensure the proper used of voluntary and *sadaqah* funds. As an

¹⁸ See: M. Mukhsin Khan. *Sahih Bukhari*. Volume 4, Book 51, Number 14, Peace Vision, 1971; and M. Mukhsin Khan. *Sahih Muslim*. Book 20, Number 4496, Peace Vision, 1971

¹⁹ Lewis, Mervyn K. "Islam and accounting." In *Accounting Forum*, vol. 25, no. 2, pp. 103-127. Blackwell Publishers Ltd, 2001.

²⁰ Vanderwarren, Karyn R. "Financial accountability in charitable organizations: Mandating an audit committee function." *Chi.-Kent L. Rev.* 77 (2001): 963

²¹ Siraj, Siti Alawiah, and Yusuf Karbhari. "Financial Accountability of Waqf (Pious Endowment) Institutions in Malaysia: The Case of Budgeting Practices in State Islamic Religious Councils."

organization that depend largely on public donations, an adequate planning of financial resources, monitoring and evaluating as well as reporting the uses of resources will enable to make timely decision for their future sustainability.

Financial accountability can be measure through evaluation of financial reporting or disclosure management. The existence of good system of financial reporting in a non-profit organization would make stakeholder for those non-profit organization easy to make a prediction for organization's foreseeable future.

This relationship between financial accountability and financial sustainability are positively when the survival for most non-profit organization who are heavily depending on public donations are having a good financial accountability.²² This situation is then lead to a concept of public trust. This public trust concept is then being evaluated by measuring the donation collected by non-profit organization.

Financial accountability can be distinguished into internal financial accountability and external financial accountability.²³ Internal financial accountability is responsibilities of non-profit organization towards its internal relationships such as voluntary staffs and *mutawalli* itself. While, external financial accountability is responsibilities of non-profit organization towards its external relationships such as donors, receivers and society.

Although these financial accountability relationships do not have a proper measurement for non-profit organization practices, it is not possible for evaluation process. Currently, public sector organizations in Malaysia have evaluate their financial accountability by using Financial Management Accountability Index (FMAI) as per introduced by National Audit Department (NAD).²⁴ This evaluation index can be are very useful guideline in evaluating financial accountability for non-profit organization sector.

In depth, this evaluation index is covering about nine main areas in financial management which are: (1) organizational management control; (2) budgetary control; (3) receipts control; (4) expenditure control; (5) management of trust funds, trust accounts and deposits; (6) management of assets and inventories; (7) management of investments; (8) management of loans; and (9) financial statements.²⁵ All of these main areas are then being evaluated by different weightage that are being set up by NAD. The results for each main area are then being accumulated for calculating the overall level of rating for financial accountability for an organization.

In identifying the level of financial accountability, overall level of rating for financial accountability are divided into four level which are: (1) excellent – 4 stars (90% - 100%); (2) good – 3 stars (70% - 89%); (3) satisfactory – 2 stars (50% - 69%); and (4) not satisfactory – 1 star (49% and below).²⁶

²²Abraham, Anne. "Financial sustainability and accountability: a model for nonprofit organisations." (2003).

²³Raffer, Kunibert. "International financial institutions and financial accountability." *Ethics & International Affairs* 18, no. 02 (2004): 61-77.

²⁴Bakar, NurBarizah Abu, and Suhaiza Ismail. "Financial Management Accountability Index (FMAI) in the Malaysian public sector: a way forward." *International Review of Administrative Sciences* 77, no. 1 (2011): 159-190.

²⁵Bakar, "Financial Management Accountability Index (FMAI) in the Malaysian public sector: a way forward."

²⁶Bakar, "Financial Management Accountability Index (FMAI) in the Malaysian public sector: a way forward."

The financial accountability measurement for an organization therefore, could lead to more accountable in financial management. It can be achieved by implementing a proper accounting and reporting practices. The financial management practices in the public sector could highly possible generating similar results for non-profit organization.

Financial reporting and disclosure management

One way to ensure financial accountability in an organization is through financial reporting and disclosure management. In general, the main information regarding an organization whether profits organization, non-profit organization or the government itself can be traced from financial reporting regardless of the presentation types of financial reporting. All these information are essential for many interest parties especially for the management of the organization to evaluate and making necessary decision making in the future. Other stakeholders such as shareholders, creditors, clients and community or society who had interest with the organization also will benefits from this related information.

Previous studies on financial disclosure in profit based organizations had identified that financial reporting is an importance medium used by management in order to communicate the current performance of the organizations with internal and external users.²⁷ The communication is importantas to make sure that all interested users gains the necessary information needed for their notification and further actions.

Previous studies on non-profit organizations identified that the size of non-profit organizations affecting the effectiveness of financial reporting.²⁸ The smaller size of non-profit organizations had more clean or unqualified financial reporting compared to the bigger size of non-profit organizations. This clean financial reporting had been made by these smaller sizes of non-profit organizations as they do not have complexity transactions and accounting treatment compared with large size of non-profit organizations. However, this research is limits on non-profit organizations that are being audited by audit firms only.

The importance of the information by external users is not only limit to profit organizations, but may expand to non-profit organization as well. Many non-profit organizations especially in Malaysia currently still do not have a proper financial reporting unless non-profit organizations that are registered under the CCM. This was due to the requirement for organizations to prepare according to Malaysia Financial Reporting Standard (MFRS) and other related accounting standards.

²⁷ See: Healy, Paul M., and Krishna G. Palepu. "Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature." *Journal of accounting and economics* 31, no. 1 (2001): 405-440; Hossain, Mohammed, and HelmiHammami. "Voluntary disclosure in the annual reports of an emerging country: The case of Qatar." *Advances in Accounting* 25, no. 2 (2009): 255-265; and Arshad, Roshayani, Noorbijan Abu Bakar, Farah HaneemSakri, and Normah Omar. "Organizational Characteristics and Disclosure Practices of Non-profit Organizations in Malaysia." *Asian Social Science* 9, no. 1 (2012): p209.

²⁸Keating, Elizabeth K., Mary Fischer, Teresa P. Gordon, and Janet S. Greenlee. "The single audit act: How compliant are nonprofit organizations?" *Hauser Center for Nonprofit Organizations Working Paper* 16 (2003).

For non-profit organizations under companies limited by guarantee category, these financial reporting which consists of income statement, balance sheet and other financial statement information need to be prepared. This was due to the requirement of companies to submit these financial reporting to CCM as stated by Companies Act of 1965 that they are legally binding.

A full disclosure, however, does not mean an organization needs to disclose everything down for every detail of transactions but to disclose everything that is believed as importance to internal and external users for the purposes of serving God.²⁹ In a related study, it was identified that financial reporting and disclosure practices must consist of 'total disclosure' information, which consist auditable information and non-auditable information that are essentially needed especially for decision making process.³⁰

Auditable information is documented accounting information that been prepared for external decision makers and audited by external auditor. Auditable information is mostly being used by external parties such as shareholders, creditors and debtors. For example, all financial statements consist of income statements, balance sheets, statement of cash flows and other related documents to financial statements. Non-auditable information is documented accounting information that been prepared for internal decision makers such as board of directors, managers and employees. For example, future cash-flow regarding to revenues and expenses, ratio analysis and managers' earnings forecast.

Mostly, non-profit organizations including Islamic philanthropic organizations in Malaysia have incomplete disclosure information especially for non-auditable information. This was due to the lack of professional managements especially in finance section. This non-auditable information is needed by the board of directors or the board of trustee of these non-profit organizations to come out with ideal strategies for achieving the organizations' objectives and missions.

For disclosure management practices, there are at least four main objectives for accounting disclosure for Islamic organizations. The first two are specific requirement stated by *shariah* rules for the organization to avoid *riba'* and obligation to pay a *zakat*. The next two objectives are based on society or public concerned as part of stakeholders which are 'social responsibility' and 'full disclosure' practices.³¹

This Islamic concept of disclosure revolved around the concept of 'adequate' disclosure. Here, adequate disclosure means that the financial statements should contain all material information necessary to make them useful to users.

A good financial disclosure practices in non-profit organizations will results the highly confidence for the public especially the donors to make contributions. Previous research mainly prove that an effectiveness operations and an efficiency fundraising of the non-profit organizations. It could lead to a good financial accountability. Two elements that can bring

²⁹Baydoun, "Islam and accounting: Ethical issues in the presentation of financial information." 1-25

³⁰Ball, Ray. "Infrastructure requirements for an economically efficient system of public financial reporting and disclosure." *Brookings-Wharton papers on financial services* 2001, no. 1 (2001): 127-169.

³¹Rahman, Abdul Rahim Abdul, and Abdul Rahim. "Accounting regulatory issues on investments in Islamic bonds." *International Journal of Islamic Financial Services* 4, no. 4 (2003): 1-11.

to a good financial accountability are measured by using program service ratio and fundraising ratio, which are based from the information given in the financial disclosures.³²

The program service ratio are being calculated by dividing all expenses being made for activities and program that supports organization's objectives, missions and goals with total expenses. Meanwhile, fundraising ratio are being calculated by dividing all expenses being made for fundraising activities with total revenues.

The program service ratio will measures the effectiveness of non-profit organization's operations while the fundraising ratio will determine the efficiency of the non-profit organization's operations. These two ratios could highly affect the donors' decisions in making donations towards these non-profit organizations.

Those two elements, effectiveness and efficiency of non-profit organizations are being calculated by information given in financial disclosures. If financial disclosures for a non-profit organization are not been prepared well accordingly, it will affect to the misinterpreted information and consequently lead to false decision making. Going concern, it will affect the sustainable of non-profit organizations and tarnish financial accountability of those non-profit organizations.

Conclusion

The growth of philanthropic organizations or non-profit organizations in Malaysia cannot be taken lightly. This sector of non-profit organizations can lead not only to serve society's needs, but it also can be a key player in economic and social stabilizations. Although the movements and impacts by non-profit organization as a 'third force' besides government and private sectors in Malaysia are not much compared at the western countries, its existence is highly significant for society.

The challenges for non-profit organizations should be taken seriously. Particularly, it is because these non-profit organizations carrying society's interests. Because of that, comprehensive guidelines, standards and evaluation assessments need to be considered along with non-profit organizations' current practices in Malaysia.

Some other suggestions for better practices especially to enhance financial accountability of Islamic philanthropic organizations in Malaysia are by developing a comprehensive financial disclosure standard. A standardize financial disclosures will make

³² See: Weisbrod, Burton A., and Nestor D. Dominguez. "Demand for collective goods in private nonprofit markets: Can fundraising expenditures help overcome free-rider behavior?" *Journal of public economics* 30, no. 1 (1986): 83-96; Posnett, John, and Todd Sandler. "Demand for charity donations in private non-profit markets: the case of the UK." *Journal of Public economics* 40, no. 2 (1989): 187-200; Callen, Jeffrey L. "Money donations, volunteering and organizational efficiency." *Journal of Productivity Analysis* 5, no. 3 (1994): 215-228; Tinkelman, Daniel. "Factors affecting the relation between donations to not-for-profit organizations and an efficiency ratio." *Research in Governmental and Nonprofit Accounting* 10, no. 1 (1999): 135-61; Okten, Cagla, and Burton A. Weisbrod. "Determinants of donations in private nonprofit markets." *Journal of Public Economics* 75, no. 2 (2000): 255-272; Yetman, Michelle H., and Robert J. Yetman. "The effect of nonprofits' taxable activities on the supply of private donations." *National Tax Journal* (2003): 243-258; and Krishnan, Ranjani, Michelle Yetman, and Robert J. Yetman. "Financial disclosure management by nonprofit organizations." *Available at SSRN 319581*(2002).

external users especially potential donors to contribute to these non-profit organizations. Future study should be undertaken to examine the current financial disclosure practices of these non-profit organizations in Malaysia.

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