

**DISCHARGING PUBLIC ACCOUNTABILITY:  
THE CASE OF ANNUAL REPORTS  
DISCLOSURE OF MALAYSIAN STATE ISLAMIC  
RELIGIOUS COUNCILS (SIRC)**

NOT TO BE  
TAKEN AWAY

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## Abstract

State Islamic Religious Councils (SIRC) in Malaysia are sole trustees and responsible for managing the Muslim wealth revenue derived from *zakat* (alms), *waqaf* (endowment) and *mal* (treasury). SIRC are one of the public service entities established within the confines of Islamic law. The political and social factors affecting SIRC are unique, which has inspired the present study's focus. The importance of SIRC is examined from both sides of these religious organisations, the administrators of considerable funds and public accountability.

In the interests of public accountability, which respects the right of the public to have access to information about government entities, this study aims to satisfy the public through providing an external report that meets their expectations regarding the discharging of SIRC accountability. Three objectives have been set: i) to identify the perceptions of stakeholders in relation to accountability within SIRC; ii) to identify the determinants of the extent and quality of the disclosure of information in the SIRC's annual reports and iii) to investigate the factors affecting the current disclosure practices in the SIRC's annual reports.

In order to achieve the stated objectives, a variety of methodology falls into three stages. Firstly, a questionnaire survey was carried out to understand the perspectives of stakeholders of SIRC concerning accountability and to identify the disclosure items with their importance weighting. Secondly, the findings from the first stage were used to develop a disclosure index to measure the extent and quality of the SIRC's annual reports, which in turn led to identifying the determinants of such disclosure using regression analysis. Thirdly, a further investigation was conducted by interviewing accountants, policy-makers and annual report-users including auditors and the general public, to understand the existing reporting practices and the basis of the disclosure.

The findings in this study produced several noticeable phenomena. Despite the greater accountability of SIRC to a wide range of stakeholders, the expectations of SIRC were varied, in particular regarding the accountability within SIRC. While SIRC themselves consider that their performance is answerable to higher authorities such as the King and the Board of Directors, external stakeholders nevertheless perceive SIRC as being bound to their funders for probity. Yet the majority of them believe that Islam influences the SIRC's external reporting practices.

On considering the SIRC's financial characteristics in determining the extent and quality of their disclosure, this study found that only size of SIRC is significantly associated with the SIRC's annual reports, and, in particular, in non-financial disclosure. This finding is consistent with the perceptions of accountants about the reporting practices among SIRC. It is argued that as *zakat* collection to proxy size increases, the incentive to prepare an annual report becomes greater. In fact, preparers of the annual report are more likely to disclose voluntary information rather than the mandatory financial statement items.

Further investigation was needed to provide in-depth explanations about normative SIRC reporting and current SIRC practices. Interviews with several constituents, involving a wide range of stakeholders, were carried out. Consequently, this study contributes to the existing literature by outlining the factors of disclosure and non-disclosure in the delivery of information such as national regulations, Islamic influence, and internal problems like the attitudes of top management, shortages and changes in organisational structure. It was found that the limits of authority between the federal and state governments can best be explained by the fact that the annual report is not mandatory. Such a lack of enforcement is the main reason for the inconsistency of the annual report disclosure of some SIRC and its total absence from others. This was highlighted by the majority of the interviewees. However, as most of the SIRC's accountants claim that they are becoming more active in issuing annual reports, it seems advantageous to propose adopting a best reporting framework that meets the expectations of all users. Consequently, this study was able to make empirical contributions to the literature, and particularly to the practice and knowledge of this type of institutional accounting.

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## Author's Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed . .....

Date 8/2/2016

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## LIST OF ABBREVIATIONS

AND (JANM).....	Accountant's National Department ( <i>Jabatan Akauntan Negara Malaysia</i> )
CCM.....	Companies Commission of Malaysia
CIPFA.....	Chartered Institute of Public Finance and Accountancy
EXCO.....	State Executive Committee
FRS.....	Financial Reporting Standards
IPSAS.....	International Public Sector Accounting Standards
JAWHAR.....	<i>Jabatan Wakaf, Zakat dan Haji</i> (Department of <i>Waqaf, Zakat and Haji</i> )
MASB.....	Malaysian Accounting Standard Board
MFRS.....	Malaysian Financial Reporting Standards
MGTC.....	Malaysian Government Treasury Circular
NAD.....	National Audit Department
NPM.....	New Public Management
NPO.....	Non-Profit Organisations
ROS.....	Registrar of Society
SIRC (MAIN).....	State Islamic Religious Councils ( <i>Majlis Agama Islam Negeri</i> )
SLA.....	Statutory Legislative Assembly
SORP.....	Statement of Recommended Practice for UK Charities

## CHAPTER 1 INTRODUCTION

### 1.1 Overview

In the public sector realm, national economic activity, owned and controlled by the government, provides public services for probity and compliance (Broadbent and Guthrie, 1992). Hoque and Moll (2001, p. 305) claim that “a range of social, economic and technological pressures are forcing governments to become more effective, efficient and accountable for the use of publicly generated funds”. According to Horner *et al.* (2006), the importance of public sector reform is to address the prevalent problems of ‘old’ public administration and the lack of responsiveness to users’ needs, raised when public bodies are governed by an upwardly accountable structure. The public sector has since undergone a paradigm shift with substantial exposure to the global paradigm in management.

In both developed and developing countries, public sectors have experienced severe criticism for over two decades since 1995 for being inefficient, corrupt, lacking flexibility, showing poor performance, bureaucracy conflict, fiscal crises of government, failing to satisfy the public, which has resulted in changed attitudes to the government’s role and public expectations (Siddiquee, 2006; Common, 1998). Consequently, the majority of these countries have been undertaking considerable reform in the administration of the public sector to address such problems (Hooks *et al.*, 2012).

Siddiquee (2006) defines New Public Management (NPM) as a set of contemporary administrative changes to improve efficiency and performance in public service delivery. NPM offers many labels for reforms which have been inspired by private sector management style and market mechanisms (Samaratunge *et al.*, 2008). Unfortunately, there is no globally cohesive model of NPM (Hood, 1991; Wollmann, 2003) since Lane (2011, p. 44) claims that “NPM is the generalization of tendering inherent in public procurement” and there is not a country-specific model.

Although there is an on-going debate about the precise elements of NPM, several doctrines<sup>1</sup> have been articulated in the literature from, among others are Bezes *et al.*, 2012; Siraj, 2012; Lane, 2011; Samaratunge *et al.*, 2008; Hoque and Moll, 2001; Hood, 1995. Such elements concede the need to empower every civil servant with a specific responsibility (Hood, 1995). These measures aim to enhance organisations’ accountability and promote efficiency and effectiveness (Hoque and Moll, 2001).

Due to this greater accountability, Hood (1995) further explains that NPM permits the empowerment of public managers having high flexibility and freedom to enhance performance accountability beyond fiscal compliance. However, Romzek (2000) cautions that public managers are accountable to provide satisfactory explanations to the public, within the public’s notion of accountability for their actions, to prevent any sanction. Haque (2000)

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<sup>1</sup> There are seven key elements in NPM as follows: i) business-like entrepreneurial management-preference from non-monetary to monetary incentives ii) standards and measures of performance accountability iii) output controls through reporting, monitoring and accountability; iv) disaggregation and decentralisation of management in public services delivery; v) greater competition in the provision of public services vi) a private sector management style; and vii) discipline efficiency and parsimony in resource allocation.



highlighted the essence of public accountability which is aimed at improving performance by assuring the efficiency of resource usage and quality in delivering services.

NPM thus became the dominant practice in the 1980s and 1990s in Britain, Australia, New Zealand, the United States and some developing countries (Haque, 2007). Samaratunge *et al.*, (2008) found that developing countries have been implementing NPM reforms to improve service efficiency in national socio-economic growth, which implies social, economic and fiscal rationality towards various reforms of the public sector in developing regions. In this study, the annual reporting for the discharge of public accountability is investigated, concerning a NPM in one the developing countries, namely the Malaysian public sector.

## **1.2 Nature of the study**

A considerable body of literature recognises the global need for public sector entities to discharge their accountability through reporting. Most of the reported international research on accountability primarily applies to developed countries. Tayib *et al.* (1999) claim stakeholders of public sectors in developed countries have a greater opportunity to exercise their right for information compared with those in less developed countries. As a result, Pollitt (2006) cautions against generalising accountability issues across different countries and suggests an empirical study of public sector accountability particularly in developing countries. Malaysia is a developing nation that operates a nominative representative governance system.

Thus, it is essential for public sector entities to be held accountable to citizens for generating public support.

This study focuses on SIRC in Malaysia, which were established for ~~the~~ social welfare under the purview of state enactments in an Islamic setting. Generally, SIRC are chaired by state rulers, since a Ruler is the head of the Islamic religion in each respective state<sup>2</sup>. This practice is different in most developed Western countries. In the UK, for instance, social welfare is administered by non-ministerial departments<sup>3</sup>, namely, the Charity Commission for England and Wales and The Office of the Scottish Charity Regulator (OSCR) for Scotland. The Charity Commission and OSCR are independent from ministerial influence and from charities which act as regulators and registrars of charities in their respective regions.

The uniqueness of the political system and cultural values, dominated by ethnic identity, has influenced global public sector reform (Haque, 2007). These political and social factors have also affected the public sector in developing countries such as Malaysia, which could make a valid empirical contribution to international literature. Thus, this study, based on the Malaysian context, is an attempt to provide some insights into the development of accountability in international public sector accounting.

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<sup>2</sup> Article 3 of the Federal Constitution stipulates that Islam is the religion of the federation but other religions may be practiced in peace and harmony in any part of the federation. Schedule Nine of the constitution lists the constitutional division of powers between federal and state government, in which Islamic matters are categorised in the State List.

<sup>3</sup> Refer <https://www.gov.uk/government/organisations/the-charity-commission-for-england-and-wales>. Accessed on 13 December 2013

To date, as elsewhere, in Malaysia there has been an increased public interest in government transparency, particularly concerning performance and service delivery of public entities such as ministries, government departments, agencies, local authorities and government linked-companies. The public has continued to demand the best standard of services and greater transparency. SIRC are one of the government agencies that has received significant attention from the public. A number of negative cases about SIRC were reported in the local media, such as the embezzlement of public funds and misconduct inquiries (*Berita Harian*, 2 March 2011; *Berita Harian*, 27 November 2011; *My Metro*, 1 November 2011; *The Sun*, Daily 24 November 2011 and *The Sun Daily*, 24 April 2010). The public, including contributors, service recipients and the community, have demanded their citizenry rights.

Wahid *et al.* (2009) found that reasons for public dissatisfaction may arise from ineffective distribution and insufficient dissemination of information concerning the distribution of public money. Consequently, as well as media enquiries, the various stakeholders, especially the public, demand their right to information about the activities and programmes for recipients of SIRC's funds. Greater transparency would enable the public to make an informed judgement on the SIRC's accountability. This shows a change in the relationship between the public and the SIRC, in which the public has moved from passivity to increased analysis and demands for transparency from the SIRC.

In order to respond to these criticisms, the content of the annual report in the overall accountability of SIRC is essential. In particular, being accountable for the funds received directly from the state and indirectly from the federal government<sup>4</sup>, SIRC create substantial accountability chains which involve various constituencies of interest to the government and public interest. This implies that related information on accountability should be provided using numerous mechanisms both internally and externally to the reporting entity, which are: formal and informal, routine and *ad-hoc*, written, spoken, electronic and other media (Coy *et al.*, 2001). From an executive level within the SIRC, the CEO is directly accountable to the SIRC board. External stakeholders such as auditors, funders, service recipients, the public and the media are also part of the accountability chain.

Notably, the statutory report, such as the financial statement which is submitted to the Auditor General (AG), widens the accountability sphere on a regular basis to state and federal governments. The Auditor General should submit the audit report to the state Ruler, after which it will be laid before the respective State Legislative Assembly (SLA) and finally be passed to parliament. Apart from the financial statement, a non-financial report is crucial as the governments are held accountable for compliance with spending mandates, and thus accountable for performance (Gray and Jenkins, 1993). This has called for an increased need for a comprehensive annual report for the discharge of public accountability in SIRC.

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<sup>4</sup> SRCs receive a grant from the federal government through the allocation of the state government.

Although there are many accountability mechanisms like financial statements, web reporting and press being offered, Coy *et al.* (2001) argue that the primary reporting mechanism of the annual report allows the government agencies to broadly discharge their accountability to stakeholders, comprising parliament and the public. The annual report is valuable as a way of providing a wide range of summarised information in a single document. It permits numerous stakeholders to get a comprehensive understanding of the objectives and performance in financial and non-financial terms on a routine basis (Coy *et al.*, 2001).

This report is also crucial for performance evaluation, monitoring and as a check on the quality targets set by managers (Odainkey and Simpson, 2013). Boyne and Law (1991) also concede that the annual report is the only comprehensive statement of stewardship to the public. Siraj (2012) has proven that it is perceived by senior managers in SIRC as vital tool for accountability purposes, to disseminate performance information to external parties such as overseeing bodies, beneficiaries and, more importantly, potential contributors. Overall, Islam and Deegan (2008) found that external pressures like fiscal compliance and the public interest may influence the annual reporting practice.

Therefore, relevant to this research is the external reporting of such annual reports, to provide empirical evidence in the Malaysian public sector under the public accountability theme, specifically within SIRC. Three research objectives are proposed: to identify disclosure items sought by stakeholders that should be disclosed in the SIRC's annual reports, to

identify the determinants of the SIRC’sannual reports disclosure and to investigate factors influencing disclosure in the SIRC’sannual reports from the perspectives of SIRC's accountants, regulators and the users, namely the auditors and the public.

A mixed methodology of both quantitative and qualitative has been adopted to achieve the identified research objectives. Table 1.1 illustrates the research objectives (RO), research questions and methods.

**Table 1.1: Research objectives and methods**

No.	Objectives	Research questions	Methods
R01	To identify the perceptions of stakeholders in relation to accountability within SIRC's	a. What are the stakeholders' perceptions of SIRC's regarding accountability?	Questionnaires
		b. Does Islamic thought influence the content of SIRC's' reporting?	
		c. What are the expectations of information disclosure in the SIRC's' annual reports to discharge their accountability?	
R02	To identify the determinants of SIRC's' annual reports disclosure	a. Do specific characteristics of SIRC's, such as size, liquidity, leverage, profitability and efficiency, have a significant impact on the extent and quality of the disclosure.	Content analysis
R03	To investigate factors influencing the expectations and practices of disclosure in the SIRC's annual reports from the perspectives of SIRC's' accountants, regulators and users - auditors and the public	a. What are the factors affecting the expectations and practices of disclosure in the SIRC's annual reports?	Semi-structured interviews

With reference to Table 1.1, in order to achieve R01, online questionnaires were forwarded to the SIRC through the Corporate Communication Executives and additionally, directly expedited by the researcher to the respondents to increase the response rate. Next, fifty-seven items of information disclosure generated from the questionnaire were used to achieve R02. Thirty-one<sup>5</sup> SIRC annual reports were evaluated against the

<sup>5</sup> Only thirty-one reports of SIRC are available from 2008-2013.

developed index. Furthermore, the explanatory variables were extracted from the seventy-two SIRC financial statements<sup>6</sup>. Multivariate analysis was adopted to interpret the data. Finally, interviews with SIRC accountants, regulators, auditors and the public were conducted to address RO3. The data from interviews was transcribed *verbatim* and analysed both manually and through NVivo software.

### **1.3 Motivating factors for the study**

Abdul-Khalid (2008, p. 70) states that “The Malaysian public sector has undergone various transformations since independence” in 1957 to play a custodial role, which implies the earliest implementation of public sector reform in Malaysia could be seen in the early 1960s. In the 1970s, it shifted to economic rationality through administration development, and the creation of public enterprises and statutory bodies.

The 1980s and 1990s witnessed many NPM-type reforms emphasizing public sector restructuring (Ferlie and Steane, 2002); although Siddiquee (2006) argued that NPM in Malaysia was not adopted entirely, there were nevertheless many positive impacts on the public service delivery. However, the implementation of performance result-based management has been unsatisfactory due to the reluctance to accept cultural changes, a characteristic of political and administrative matters (Siddiquee, 2010). Siraj (2012) asserts that during the 1990s the reforms undertaken were at a peak, focusing on managerial reforms and financial management initiatives in the administration of all government agencies, including SIRC.

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<sup>6</sup> The mandatory financial statement of twelve SIRC understudied through 2008 and 2013 are consistently published.

Managerial reforms have been embraced since early 1990s, in that 'good governance' has increasingly come to be considered essential for sustainable development (Siddiquee, 2006). The political interest to undertake this reform doubtlessly ensures continuous support. International organisations such as the World Bank, the International Monetary Fund (IMF), the United Nations and the Asian Development Bank have put pressure on the Malaysian government to grant financial assistance following the Asian financial crisis in the late 1990s that hit the region. Consequently, SIRC experienced privatisations of their *zakat* duties and administrations (Kaslam, 2011; Osman, 2010; Rahman *et al.*, 2012) due to the greater demand for more effective and efficient collection and distribution of *zakat*. To date, eight SIRC<sup>7</sup> have corporatised their *zakat* collection and distribution partly, of which four of them have been fully corporatised recently (Wahab and Rahman, 2011). The institutionalising of a subsidiary under SIRC in the *zakat* administration (Rahman *et al.*, 2012) implies the reform within SIRC.

Financial reforms in Malaysia were introduced in the 1990s to improve financial management practices such as the performance-based budgeting system (Saleh and Pendlebury, 2006). In an effort to ensure greater public accountability in financial management, the agency is required to provide a programme agreement with the treasury in the annual budget report, specifying the inputs and the expected output of an activity for the financial year (Siddiquee, 2006b). Siddiquee (2010) further explains that

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<sup>7</sup> SIRC in Federal Territory, Selangor, Pahang, Penang, Negeri Sembilan were corporatised in 1991-2000 whereas Sarawak and Sabah in 2001 and 2007 respectively.



the final output of the activity must be described in terms of quantity, quality, timeliness, costs and impacts or outcomes to ensure the services compliance and good performance. This is essential for ensuring that monitored public funds are consistent with the performance accountability.

There was a greater emphasis on the accountability of the public agencies. In 2007, the National Audit Department (NAD) implemented the Financial Management Accountability Index (FMAI) Ranking System based on the financial management audit. Its main purpose is to motivate the government agencies with specific objectives for improving, enhancing and strengthening financial management performance. The FMAI is an objective and quantitative evaluation of all government agencies. The index covers eight main areas of financial management, namely management control, budget, revenue collection, expenditure, management of trust accounts and deposits, assets and inventory, investments and loans as well as submission of audited financial statements to the Auditor General.

The year 2010 marked the introduction and implementation of Malaysia's Government Transformation Program (GTP), which is based on the government's commitment to citizenry and performance under the banner of 1Malaysia. GTP has six 'National Key Result Areas' (NKRA), which are: reducing crime, fighting corruption, improving student results, raising the living standards of low-income households, improving rural basic infrastructure and urban public transport. SIRC are vital to support NKRA,

particularly in increasing the public's standard of living and meeting related NKRA targets. This indicates the importance of SIRC in socio-economic development, as well as their accountability, which is a major concern of the higher authorities and the public.

Finally, in the First National Congress of the SIRC, held on 26-27 September, 2011 at PWTC, Kuala Lumpur showed that the federal government had conceded the importance of the SIRC. The congress was officiated by the King, His Royal Highness *Tuanku Mizan Zainal Abidin*, who announced twelve resolutions, aimed at improving the socio-economic conditions of Muslims in the nation. Concerning these resolutions, it was important to identify appropriate methods that could strengthen the sustainable financial position of the council as a trustee for educational institutions, promote socio-economic development, acquire strategic property for Muslims and the citizenry at large and also strengthen SIRC administration of human resources. Furthermore, SIRC should also review the jurisdictions required so that their functions of being accountable to God and the Ruler, would be more effective. As such, this highlights the reinforcement of the public services delivery within the public accountability paradigm in the Malaysian government.

The present study is feasible and timely for Malaysia, especially in public sector accounting. The introduction of accountability rating index and resolutions for SIRC respectively in 2007 and 2011 have led SIRC to be more active in discharging their accountability through external reporting. This research suggests the best practice of reporting, in particular a set of

information that meets the expectations of a wide range of stakeholders. The annual report could be used as a mechanism of discharging accountability in the eyes of the stakeholders and principally, the public within the purview of public accountability. The findings might be of interest and useful to SIRC themselves, regulators and the public in Malaysia and other countries, and those organisations such as government agencies, religious organisations, charities and NPO.

Moreover, following the limited number of studies on disclosure of SIRC, this study attempts to fill the gap (see Section 5.2.4.2) by determining the perceptions of a wide range of stakeholders about the accountability of SIRC, and their expectations of information disclosure. Next, it examines the extent of SIRC disclosure against the expectations of stakeholders and evaluates its quality. Given the absence of specific guidelines of the disclosure, this study aims to suggest what kind of information should be disclosed.

#### **1.4 Significance of the study**

This study is not only limited to the disclosure practices for not-for-profit organisations, but is also important for the contribution to existing literature in various ways.

First, this study enriches literature on the meaning of accountability in general, Islamic views, and those specific to SIRC in Malaysia, by examining the perspectives of a wide range of stakeholders. The uniqueness of SIRC as public sector agencies, an Islamic setting with welfare responsibility, could enhance literature on accountability of many related organisations.

Despite the accumulation of literature on disclosure, Malaysian context studies are still under researched. Previous related studies on Malaysia differ, since the present one involves evaluating comprehensive annual reports using a self-developed disclosure index, generated from the questionnaire, and considering various constituents of stakeholders' viewpoints. The aim is to understand their perspectives and the current reporting practices.

Secondly, this study contributes to the literature on determinants of disclosure using financial specific characteristics, by providing evidence on the impact of wealth, reflecting the size and efficiency of *zakat* distribution on disclosure, besides considering factors such as state-ownership, accessibility and locality. Those less tested variables in public sector disclosure studies could augment the literature on the developing countries like Malaysia. For instance, unlike previous studies that used efficiency in relation to funding and governance, a less tested variable of efficiency was used in this study, for determinants of disclosure. Although it was found that efficiency was not significant with SIRC disclosure, this research contributes to the literature on efficiency concerning disclosure, in addition to fundraising and corporate governance studies (Heijden, 2013; Wahab and Rahman, 2011; Callen *et al.*, 2003).

Thirdly, the inclusion of both voluntary and mandatory disclosure in this study could enhance literature for both of these disclosure studies. Besides, the extent of disclosure is examined together with the quality of disclosure, the latter being scarcely researched where research in the

latter is still scarce. As such, it provides evidence of the quality of reporting in mandatory and voluntary disclosure.

Fourthly, this study contributes to the extent of literature on the basis of reporting practices. Reasons for disclosure and non-disclosure are documented from the views of preparers, regulators, auditors and the public. The influence of Islam on the content of reporting is also investigated, which adds to the literature on the Islamic Accounting.

Fifthly, to the best knowledge of researcher, this is the first study exploring constraints of non-mandatory disclosure. Therefore, it contributes to the literature on regulations or regulatory framework of accounting and reporting especially in public sector. The qualitative approach used in this study could investigate the issues more in-depth.

Other contributions to knowledge are elaborated in Chapter Ten in addition to the contribution to practice.

## **1.5 Structure of the thesis**

This thesis is organised into several chapters.

Chapter Two explains the accountability concept underlying this study, including the general meaning of accountability, Islamic views and individual perspectives on accountability. It also discusses the accountability framework within SIRC to explicate their disclosure practices.

Chapter Three introduces the background, SIRC in Malaysia to discuss attributes of the Malaysian and SIRC context to highlight the uniqueness of SIRC that might influence disclosure practices.

Chapter Four discusses the research paradigm and the theoretical positions of this study to achieve the research objective.

Chapter Five reviews the literature on the disclosure of public sector and NPO to highlight the gaps in the existing literature and to guide the present study. Previous studies on the development of hypotheses are discussed to achieve the quantitative research objectives.

Chapter Six describes the research methods employed in this study to achieve the identified objectives. Validity and reliability of the research strategies and ethical considerations are also addressed here.

Chapter Seven, Eight and Nine provide results of the questionnaire survey, regression and interviews to answer the respective research objectives of this study.

Chapter Ten concludes, discusses research limitations and recommends avenues for future research.

## CHAPTER 2 ACCOUNTABILITY CONCEPTS

### 2.1 Introduction

This chapter discusses the accountability concept underlying this study, reviewed in Section 2.2 as the main theme of this study. It is divided into three subsections: the meaning of accountability, Islamic views on accountability and individual accountability. Section 2.3 highlights the accountability chains within SIRC, focusing on three issues; 'to whom', 'for what' and the nature of accountability. Section 2.4 concludes.

### 2.2 Concept of accountability

The present research objectives rely on the accountability concept which is rooted for normative theory<sup>8</sup>. Accountability in the private and public sector is different (Yasmin, 2014). In the private sector, a bottom line or profit figure is of utmost importance. However, in the public sector the absence of a bottom line restrains the rendering of accounts (Gray *et al.*, 2006). Therefore, the accountability understanding in the public sector is crucial to promote the best practice of reporting.

#### 2.2.1 Meaning of accountability

With the tremendous growth of many corporations has come increased scrutiny of the accountability concept by scholars, since the mid-1970s. It appears to have become an on-going debate amongst scholars in different fields and has led to varying definitions according to the field of interest.

There are numerous meanings of accountability in much of the literature

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<sup>8</sup> The role of a normative theory is to prescribe how organisations should behave (Deegan, 2006). Yet, there is no ultimate answer to why reporting is examined and what should be the content of such reporting (Maali *et al.*, 2006).

(Yasmin *et al.*, 2013, Ebrahim, 2003; Mulgan, 2000; Gray *et al.*, 1996; Sinclair, 1995; Roberts, 1991; Roberts and Scapens, 1985). Some of the studies overlap while others apply to a very specific context. The notion of accountability is embedded in most areas such as politics and social sciences (Mulgan, 2000). In accounting, for instance, auditors believe accountability refers to financial and numerical situations whereas others treat accountability as a subset of ethics (Sinclair, 1995). Sinclair (1995) argues that the numerous studies of accountability consider the ideologies and motifs of a particular time and with specified disciplines.

As Patton argues, “the nature of the relationship between the *accountee* and the *accountor* can be expected to affect the information that might be demanded and transmitted” (1992, p. 168). The understanding of the accountability chain is therefore essential. Mulgan (2000), Abdul-Rahman and Goddard (1998) argue that the nature of accountability has to be identified to address the complexity of values that inhibit the accountability definition. The definition’s great diversity results in challenges, mainly because no uniformity can be achieved and indeed, the adoption of such accountability is problematic.

Despite the complexity of the meaning of accountability, Roberts and Scapens (1985, p. 447) define accountability as the “giving and demanding of reasons for conduct”. This meaning has been widely used referring to two types of obligation, namely, taking responsibility for actions and explaining such actions. As a result, a relationship arises between the *accountor* (giving actions) and the *accountee* (requiring actions). The



*accountor* (who has been entrusted with the responsibility) needs to explain their conduct to the *accountee* who assigned the responsibility (Gray and Jenkins, 1993). In turn, Goddard (2005) claims that the *accountee* has a right over the explanation of the conduct similar to the public accountability paradigm. Gray *et al.* (1996, p. 38) continue by highlighting accountability as “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible”. A transfer of resources leads to a relationship and a demand to account for explanations and justifications of the actions in the relationship (Gray *et al.*, 1996; Hyndman, 1990; Laughlin, 1990). The accountability relationship has been used to explain the association of those who manage resources (Heijden, 2013; Zainon *et al.*, 2011; Hyndman, 1990) (*accountors*) for others (*accountees*). This gives rise to an issue, about the obligation to provide explanation and justification.

Patton cites “explanation as part of accountability” (1992, p. 166). He treats explanations and justifications as being equivalent and infers that accountability implies an explanation dependent on both the accountability dimensions (political, legal and financial) and the environment (Abdul-Rahman, 1998; Mulgan, 2000).

This has led to great diversity of information about the *accountor's* actions, such as activities, process, output, outcomes and results in terms of financial (Lampkin and Raghavan, 2008; Bovens, 2007b; Patton, 1992; Laughlin, 1990; Roberts and Scapens, 1985). Bovens (2007b, p. 451) claims that there is a ‘close semantic’ relationship between accountability and

answerability. The *accountee* may demand justification about the given information whilst answerability is advocated for achieving accountability.

The meaning of accountability has been viewed as being interchangeable with responsibility in some of the literature. Mulgan (2000) claims that responsibility is part of accountability because the latter is raised to identify one of the aspects of responsibility, but is not expected to cover all activities relating to responsibility. Hood (1991) claims that typical accountability forms require different responsibility. It seems that accountability is beyond responsibility since Mulgan (2000) regards the former as external while the latter is internal. On the other hand, Lindkvist and Llewellyn (2003) treat accountability and responsibility interchangeably. In a similar vein, Bovens (2007b) indicates accountability as being synonymous with transparency, yet he argues that transparency is nevertheless not comprehensively defined as accountability. Similarly, Fisher (2004) acknowledges that transparency does not form real accountability but is essential to the process (Bovens, 2007a).

Another extension of accountability is to relate it to responsiveness which is aimed at providing actions favourable to the *accountee* (Mulgan, 2000). He also argues that accountability becomes a control mechanism through the right of an imposition of sanctions. Bovens (2007b) argues that the *accountee* has the right to make judgements on the action of an *accountor*. This implies that accountability may trigger responsiveness and this stresses the importance of rendering to account and demanding explanations (Mulgan, 2000). If there is a negative judgement, formal

sanctions may be imposed such as disciplinary measures, civil remedies or penal sanctions whereas a poor image may arise as the consequence of informal sanctions. Nevertheless, the imposition of sanctions is sometimes contested since reporting, justifying and debating is sufficient to confront the dissatisfaction of an *accountee* (Bovens, 2007a). Yet Marcuccio and Steccolini (2009) argue that accountability may help to improve performance through numerous judgements. Lampkin and Raghavan (2008) emphasise accountability as directly or indirectly holding the *accountor* responsible for the performance as objectively as possible.

The present study defines accountability as being obliged to explain and justify conduct (Bovens, 2007b). An *accountor* is liable to provide an account for their actions to the *accountee* who approves resources and responsibilities entrusted to the *accountor*. Bovens (2007b) argues that the *accountee* has the right to pose questions and pass judgement, possibly facing consequences for their actions. Consequently, the need for reporting in rendering accounts (Steccolini, 2004) and providing explanations has arisen (Patton, 1992).

The present empirical investigation emphasizes the need for reporting to convey information and provide explanations for accountability. However, the accountability component in the judgement of any performance measurement is beyond the scope of this study. The interest of the present study is disclosure via the annual report.

### **2.2.2 Islamic accountability**

Due to the uniqueness of the present study focusing on Islamic-based organisations, the influence of Islam should therefore be considered in discussing the accountability framework. It is worth at this point defining the meaning of accountability from the Islamic point of view, explains in this section. The concept of accountability from the Islamic standpoint is rooted in the core of the Islamic pillars. Sinclair (1995) proposes that accountability drawn from religious belief is powerful, since it is motivated by psychological factors instead of control and external factors. The internal sense of accountability is superior to the external imposition and greatly influences an *accountor* in performing designated responsibilities (Kilby, 2006; Lindkvist and Llewellyn, 2003). Fundamental Islamic concepts give rationality to the discharge of SIRC's accountability in performing their responsibility, as laid down by Islamic law (*Shariah*). Some of the related concepts, central to Muslim life, are as follows: the concept of the unity of God, belief in the Day of Judgment, integration between the sacred and the secular, trusteeship and responsibility (Osman, 2010; Lewis, 2006; Maali *et al.*, 2006; Lewis, 2001).

#### **2.2.2.1 Unity of God (Tawhid)**

*Tawhid* is the foundation of Islam and means the unity and absolute oneness of God known as *Allah*. There is only one supreme Lord as the creator of the universe (Maali *et al.*, 2006; Ahmad, 1999). Every Muslim believes the notion that everything in this world is created by *Allah*, the only God, which implies that everything originates from Him. All created

things have a single goal towards God's will. Hence, in all aspects of life, any actions would aim at achieving God's will and adherence to the Islamic teaching to acknowledge God's authority. Baydoun and Willett (2000, p. 80) stated that:

*"the unity of God is defined by the tawhid, which requires a total commitment to the will of God and involves both submission and a mission to follow Shariah in all aspects of life".*

This infers that *tawhid* offers an insight into a broader concept of accountability. Hamid *et al.* (1993, p. 135) pointed out that:

*"Adherents to Islam have to be obedient to God and to appreciate the purpose of their existence in this world".*

Indeed, human beings are held accountable to serve God as stated in the Quran<sup>9</sup> (51:56) "I have not created..... and the men except that they should serve me". This implies that Muslims should relate their conduct to the purpose of their existence. As found in the Quran (6:165), clearly conveys the purpose of human existence by affirming that, "It is He that has made you custodians, inheritors of the earth". The principle of human beings as custodians (*khalifah*) of the earth explains the relationship of responsibility between God, mankind and the rest of creations. Many of the verses in the Quran explain God as the creator whereas human beings are seen as the vicegerents who act as trustees of the earth. Indeed, the unity concept has clearly defined the fundamental accountability of human beings.

Haniffa and Cooke (2005) have argued that Islamic accountability should envisage responsibility to extend beyond human society and primarily

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<sup>9</sup> The Quran is a holy book for Muslims like the Bible for the Christians.

involve accountability to God. The Islamic faith articles<sup>10</sup> are essential to explain accountability from the Islamic viewpoint. The belief in the oneness of God (*tawhid*) is the first basic article of the Islamic faith. Another article, the belief in the Day of Judgment seems also pertinent to explain accountability, as will be explained in the next section.

#### **2.2.2.2 Belief in the Day of Judgement**

All Muslims believe in the reality of the Day of Judgement (Hereafter) and they consider this world as a place of trial where they are being judged. Muslims will be questioned about what they have done throughout their life. God Almighty will hold them accountable from the smallest to the biggest deed. Man is responsible for his actions and for the deeds with which he has been entrusted during his lifetime as affirmed in the Quran (4:86); *"God takes careful account for everything"*. There are many other verses in the Quran explaining such accountability (57:7, 6:165 and 99:7 and 8). After humans' death, they will be resurrected in a new world, and here, they will be rewarded or punished for their deeds and misdeeds (Ahmad, 1999). Hence, Muslims should undertake responsibilities to gain God's blessing and praise as well as to avoid God's punishment on the Day of Judgement. This view provides different dimensions to accountability, as reflected in human dealings (Maali *et al.*, 2006).

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<sup>10</sup> There are six articles of Islamic faith in Islam. First, the belief in the oneness of God (*tawhid*) while others are the belief in the prophets and in the guidance that they bequeathed, the belief in the angels, the belief in His scriptures, the belief in fate and the belief in the Day of Judgment (Ahmad, 1999).

Although many accountability dimensions have been developed, they are not universal but instead are relativistic<sup>11</sup> (Lewis and Unerman, 1999) and problematic<sup>12</sup> (Gray *et al.*, 1987). This has led to no agreed answer to the question of who determines what responsibilities should exist (Gray *et al.*, 1987). In Islam, responsibility is an essential standard for the human relationship as affirmed by the Prophet Muhammad's saying that:

*"You are all custodians and you will be questioned about the things under your custody. The leader is a custodian and he shall be questioned about his custody. The man is a custodian of his family and he shall be questioned about his custody. The woman is a custodian in her husband's home and she will be questioned about her custody. The employee is a custodian of the property of his employer and he shall be questioned about his custody"* (Al-Bukhari, 2005).

The belief in the Day of Judgment is regarded as the final accountability that may guide one's actions in this world. Accountability for the Day of Judgment is the primary focus for Muslims within which there are rewards and punishments. Therefore, accountability to God is a focal accountability in Islam (Osman, 2010).

This study regards the concept of belief in the Day of Judgment as being pertinent since the responsibilities of SIRC members are influenced by their sense of accountability to God and 'Hereafter'. They will be judged through rewards or punishment, thus fears and loyalty are integrated within themselves (Roberts, 1991; Sinclair, 1995). That judgment is not immediate and tangible in nature; it means that it may influence the reliance on the belief in the Day of Judgment. Consequently, their actions sometimes might discourage them from performing ethically (Sinclair, 1995). Actions

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<sup>11</sup> A given practice may be accepted by an individual or a group of people but not be acceptable to others and there is no agreed way of determining whose ethical views are valid.

<sup>12</sup> It has appeared problematic because responsibility changes over time and from place to place.

indeed, are contingent to the individual's sense of accountability which is used in this study (see Section 3.4.3).

#### **2.2.2.3 Integration between the sacred and the secular**

Ahmad (1999) concedes that Islam provides for all matters of life set within the framework for Islamic rules (*Shariah*). Muslims are required to follow the rules and regulations stipulated in the *Shariah*, for which they are answerable to God. God says in the Quran (5:3) which implies that Islam offers a holistic way of life in relation to the profane and the sacred. In fact, Islam provides guidelines on how to conduct a life and these rules are not restricted to sacred matters only (Kamla *et al.*, 2006; Lewis, 2006; Abdul-Rahman and Goddard, 1998). Islam prohibits the segregation between secular and sacred such as 'material' versus 'moral' and 'mundane' versus 'spiritual'. Instead, Islam urges purification of the soul and daily life reform daily life (Ahmad, 1999). For instance in work, there is a sacred (worship) element where entitlement to rewards is offered for honesty and trustworthiness in placed, or otherwise, suffering punishment. Therefore, in order to gain reward on the day of Hereafter, not only is spiritual conduct such as praying, fasting, paying *zakat* and going on pilgrimage required but other ordinary activities are also rewarded.

This integration of dual aspects of life should, however, be consistent within the Islamic boundaries. Therefore, an equilibrium for secular and sacred (Irvine, 2005) is decreed in Islam (Ahmad, 1999) since everything in this world is created for mankind towards achieving success in this world and Hereafter. The present study also relies on the absence of any



segregation between the secular and the sacred. A 'sense accountability' uniting the sacred and the secular would help to understand the SIRC context in which they act as trustees.

#### **2.2.2.4 Trusteeship concept (*Amanah*)**

God is the ultimate owner of everything in the universe including wealth such as land, buildings, money and so forth. They are in trust from God who has appointed human beings as vicegerents on earth to manage them and to uphold this trust (Lewis, 2001). However, Islam still recognises private ownership in the way that people have rights to own wealth but the ownership is not absolute (Maali *et al.*, 2006). The ownership comes together with the responsibility to be accountable to God. As the wealth is entrusted to the owner, responsibility for its use is inherent and has to be accounted for. A verse from the Quran (57:5) said that *"to Him belongs the dominion of the heavens and the earth, and all affairs go back to Allah"*. For this reason, the owner is a trustee who is supposed to use the property according to God's will, for the benefit of the owner as well as for society. Kamla *et al.* (2006) similarly argue that Muslims are never free from taking care of others whereas Lewis (2001) refers to this as social accountability. In fact, it is God's will to give priority to the benefits for society (Maali *et al.*, 2006).

Eventually, the trusteeship concept relies heavily on the safeguarding of other people's interests in addition to the trust in person as vicegerents (Ahmad, 1999). This is to ensure that, in a community, people can live harmoniously without corruption, conflict and dishonesty in any dealings.

The obligation to pay alms (*zakah*), the encouragement of endowment (*waqf*) and the prohibition of interest are some examples of promoting social justice for the benefit of society. Haniffa (2002) views the ultimate accountability in Islam belongs to *Allah*, as all deeds will be counted on the day of Hereafter. Her justification refers to the verse of the Quran (2:284) which implies that rendering an account to discharge accountability is recognized as part of servitude to God almighty as are virtuous deeds to achieve success to benefit people in this world and the Hereafter. The perceived relationship of the individual and God as well as among the Muslims themselves, would affect the accountability discharge. The present study appreciates the trustee concept as the basis of accountability in examining the nature and scope of accountability within SIRC.

#### **2.2.2.5 Responsibility concept (*taklif*)**

Accountability is greatly emphasised in Islam as *taklif* (responsibility). Previous concepts such as the unity of God, belief in the Day of Judgment, and the integration of secular and sacred as well as trusteeship have been illustrated by Lewis (2001). He describes the accountability of every Muslim when he highlights the fact that various resources are trusted and made available to individuals chosen by God. The way of consuming the resources entrusted to them are stipulated in the *shariah*. Therefore, they should be used according to God's will in order to achieve success in the Hereafter, because this is based on their deeds in this world. Every single deed either good or bad is accounted by *Allah* until their death and finally this account will be judged on the Day of Judgement. These concepts have

characterised the meaning of responsibility in Islam which has contributed to the formulation of Islamic concept of accountability (Ibrahim, 2000).

Ibrahim (2000) regards responsibility as subject to one's capacity for every single deed for which one is held accountable on the Day of Judgement. Here, it refers to personal accountability but Islam does not necessarily neglect social accountability. Ahmad (1999) highlights the balance between the individual and society by referring to the prophet's saying, "Live together, do not turn against each other, make things easy for others and do not put obstacles in each other's way". Tinker says that Islam is "simultaneously a religion and a social constitution, because it instructs Muslims in both how to worship and how they should conduct themselves with others (individuals, groups, family, nation)" (2004, p. 453). Both quotations show the importance attached to individuals' responsibility to society. The *Taklif* concept thus, denotes both individual and social responsibilities, which signify the accountability in Islam. Negligence in either context may be questioned on the Day of Hereafter. The obligation of *zakat*, the encouragement of *waqaf* and donations recognize the prominence of social responsibility. Accountability to God truly acknowledges accountability to society (Maali *et al.*, 2006; Lewis, 2001).

In short, Islam greatly stresses the concept of accountability in the relationship of Muslims with God, the relationship of Muslims to each other and to society. According to *Shariah*, every aspect of life includes sacred and secular matters, ranging from worship and business activities to the neighbourhood, and is all aimed towards recognising the rights of

others and being beneficial to everyone according to God's will. Therefore, accountability to God and society cannot be separated and should be discharged for success in this world and on the Day of Judgement. Islamic concepts indeed have characterised the nature of accountability; they have become the source of values that may influence the accountability of individuals in SIRC to a wide group of stakeholders encompassing governments, oversight bodies, creditors, contributors and the public such as beneficiaries and service recipients. This study therefore, supports the notion that Islamic values espouse accountability (Kamla *et al.*, 2012) as a holistic entity (O'Dwyer and Unerman, 2008).

### **2.2.3 Individual perspectives**

Bovens (1998) argues that individual accountability is the most promising explanation of accountability in actions. Thus, accountability can also be influenced by individual perspectives, an area that has been discussed in some of the literature. There are variations in the descriptions of accountability using individual perspectives. It can, however, be divided into internal and external dimensions.

Internal accountability perceives individuals who consider themselves as taking responsibility and considering values. Ebrahim (2003b) argues that their actions are not driven by imposition but rather such people assume their own responsibility. This is an active accountability (Bovens, 1998) from the internal dimension of taking responsibility for oneself, motivated by expressing it through one's actions (Ebrahim, 2003a). The scope of accountability very much depends on self-responsibility based on several

value premises derived from *inter alia*: psychologically established traits (Sinclair, 1995), higher principals (Laughlin, 1996), beliefs derived from personal, religious and ethical principles (Kilby, 2006). The other expectations are not taken into account in deciding actions. The present study terms internal or active accountability as a 'sense' accountability.

In contrast, the external dimension of individual accountability regards individuals being subjected to the expectations of others. Roberts (1991) explains that these individuals are concerned about how they are perceived by others. This view of regarding individuals as passive is also found in Ebrahim (2003a) as an external dimension where people are being held responsible by others and obliged to meet prescribed standards of behaviour. They see themselves through other people's eyes, which motivates them to meet performance requirements (Robert, 1996). Therefore, they are keen to fulfil other people's expectations to obtain recognition. Robert (1996) further explains that expectation, evaluation, reward and sanction seem to be related to a fascination with how one is seen and evaluated and the need to meet expectations, giving rise to rewards or punishment. Such individuals are encouraged by preoccupation with a specific purpose to achieve an established performance outcome based on the organisational hierarchy (Roberts, 1991).

Lindkvist and Llewellyn (2003) point out that an individual is identified based on this hierarchy, to be recognised through set targets and in turn, to be rewarded or penalised. They believe that actions are imposed according to detailed instructions and highly formalised systems of

hierarchical accountability (Lindkvist and Llewellyn, 2003). In this study, the external dimension or passive individual is called 'imposed' accountability.

The main difference between 'imposed' and 'sense' individual perspective is ultimately due to a distinct perception about the accountability. Goddard (2005) claims that accountability perceptions can vary between time, place and social context and that this may explain the interaction between perception and practice. As a result, individual actions are influenced by the individuals themselves and by objective conditions. If individuals are concerned about imposed accountability, they see themselves as being judged by others, and they become very anxious to satisfy others' expectations. They will even feel better when they have almost achieved the expectations because they believe they will then be recognised. This is more performance-oriented. Indeed, with imposed accountability, individuals are seen to achieve the prescribed performance target in their actions, as noted by Robert (1996) when he referred to personal accountability. Imposed accountability is motivated by an objective set of rules, whereas 'sense' accountability is concerned beyond this imposed accountability in order to hold values.

Lindkvist and Llewellyn (2003) state that individual accountability for values are creative in action and not merely within the hierarchical order in the system. They emphasize wise actions and conduct for the interest of others. Sinclair (1995), associates values in personal accountability which emphasises adherence to ethical, moral principles and beliefs. This implies that the scope of responsibilities is driven by a set of rules embodied in the

values. They are trusted and given considerable discretion within the stipulated boundaries. This has produced a befitting scope of accountability in their jobs. However, the elusive nature of the values being held is doubtful. As accountability may be characterised from religious and cultural traditions (Schweiker, 1993), the value practices may still be different which influence the individuals and the organisations. Individual accountability may be drawn from personal conscience in values (Lindkvist and Llewellyn, 2003). Sinclair (1995, p. 230) states that:

*“Ultimate accountability is driven by adherence to internalised moral and ethical values. This is because it is enforced by psychological, rather than external control, and personal accountability is regarded as being particularly powerful and binding”.*

Thus, individuals could rely on their values in their actions and inactions. As a result of such individual accountability, Ebrahim (2003b) argues that values might influence the organisation especially NPO, through their mission statements as NPO are value-based organisations, whose duties are motivated by a religious or ethical base. Kilby (2006, p. 952) cites that, “The driving force of public benefit NPO is their values, which generally in the broadest terms are about a desire for a better world”. This implies that value-based organisations aim for social benefit instead of profits or political interest.

Although values are regarded as nebulous, different sources of value in both individuals and organisations may trigger accountability. As Laughlin (1996) contends, values create a significant quality in the actions of the *accountors*. Islamic concepts (see Section 3.5.2) are relevant to this study

as they view the accountability scope as a source of value. Accountability from the Islamic standpoint may thus influence the individual accountability, especially for 'sense' individuals.

Laughlin (1996) highlights the fact that the *accountor's* value may be influenced by 'higher principals', in which using religious symbolism would be God. Schweiker (1993) argues that religious and cultural traditions reflect ethical, philosophical and theological concepts. Indeed, religion inspires actions and reasons constituting human life including social and political philosophies (Schweiker, 1993). As a result, internal obligations enforced by the psychological make-up of the individual, have had a more powerful effect on accountability (Sinclair, 1995).

The sense individual's accountability appears pertinent to this study using Islamic sources of value to consider SIRC in an Islamic setting. Kilby (2006) claims values may influence an individual action, while such actions could characterise the behaviour of an organisation (Bovens, 1998). Therefore, this study attempts to look at how Islamic values could characterise SIRC reporting practice. These results from questionnaire and interviews are discussed in Section 7.4.4 and 9.4 respectively.

### **2.3 Accountability within SIRC**

In order to clarify the present study, understanding is possible for whom accountability is due and why accountability is required. A study of the SIRC annual report disclosure as the medium to discharge accountability could thus be improved.



### 2.3.1 Accountability to whom

Accountability is a corner-stone in government entities and it arises in the accountability chain between the *accountor* and the *accountee*. The relationship comprises hierarchical upward and downward accountability (O'Dwyer and Unerman, 2010), and can respond to the accountability of those concerned. Upward accountability consists of powerful stakeholders who have political or bureaucratic, economic and legal interests such as board members, contributors and regulators. On the other hand, downward accountability refers to less powerful stakeholders like the public and service beneficiaries (O'Dwyer and Unerman, 2008). Unerman and O'Dwyer (2006) refer to hierarchical accountability as upward accountability, showing the ascending direction in an organisation hierarchy. Romzek (2000) classifies hierarchical accountability as involving parties such as the minister, the president and the head of a department. There is a supervisor-subordinate relationship in which the supervisor has to monitor the subordinate, as in a hierarchical structure.

In the public sector context, the *accountee* can also be identified from authorisation, factors of support and the impact of actions and reports (Keohane, 2002). These include social *accountees* such as citizens, recipients of public services, political *accountees* like ministers, voters and elected council members; legal *accountees* are external supervisory entities (Bovens, 2007a). O'Dwyer and Unerman (2008) argue that the hierarchical upward accountability has priority in accordance with the power level. This implies that those who hold power for political, economic and legal

reasons in a higher hierarchy certainly wield more influence and accountability, as demanded by the *accountee*.

Freeman (1984) describes *accountees* as an organisation's stakeholders who have a right to information about the organisation; Gray *et al.* (1996) attribute a contractual relationship to them. Coy *et al.* (2001) argue that various stakeholders have different interests to the organisation according to the rationale of social, economic and political interests. Coy *et al.* (1997) list six group recipients of annual reports such as internal council citizens, sister organisations or competitors, elected and appointed representatives, resource providers, external citizens and interest groups.

In this study, SIRC are recognised as *accountors* who act as agents whereas the *accountees* are those with social, economic, political and legal interests. The latter are those who have the power of authorisation, financial providers and political supporters and ones who may influence and be influenced by the SIRC. There is a wide range of stakeholders, consistent with the NPM as a result of greater accountability. As a framework, stakeholders within SIRC are presented in Table 2.1.

Table 2:1: Stakeholders of SIRC

Groups of stakeholders	Users
Management and other employees of SIRC	-Board of directors, chairman/CEO, head of departments, executives, support staff
Higher authorities	-Ruler, state government and federal government
Elected and appointed representatives	-Auditor General, oversight bodies, Parliaments, politicians,
Sister organisations	-Other related government agencies
Resource providers	-Contributors, donors and sponsors, suppliers and creditors
External citizens	-Service beneficiaries, local citizens
Interest groups	-The public, researchers and voters

Based on Table 2.1, there are seven groups of stakeholders consisting of external and internal stakeholders. As SIRC are set up according to the state enactments, they have been given the legislative power by the Ruler to administer and control Islamic affairs within the confines of the constitutions. Thus, on behalf of the Ruler, the government authorises the SIRC to act as trustees in the state for the collection and distribution of *zakat* and other Muslim revenues. The responsibility is delegated by the electorates of the state government from whom in turn, the SIRC are entitled to receive annual grants, including those from federal governments. Such transfer of resources and responsibilities by the Ruler and the state government gives rise to the accountability relationship in relation to the power of authorisation and financial support. Laughlin (1990) states that if there is a transfer of resources and responsibilities from the principal to the agent, there is an accountability relationship.

The establishment of SIRC is recognised as a constitutional State matter (see Table 3.1., p. 55) conceding a direct relationship between the SIRC and the state government on behalf of the Ruler. In contrast, there is no direct relationship between the SIRC and the federal government. The *Department of waqaf, zakat and hajj* (JAWHAR) at the federal level, can only monitor the actions of the SIRC but it does not intend to take over their roles from the state government. The federal through the state government may monitor and advise the SIRC in their actions, consistent with Islamic precedents, through the National Fatwa Council and the constitutions. Federal/(State) governments are stakeholders of SIRC on the

basis of political (authorisation) and economic (financial support) interest indirectly or directly.

Another stakeholder in the government acting as an overseeing body is the Auditor General (AG), described by Bovens (2005), as a legal *accountee*. The constitution permits the AG to perform audit examinations and to control the SIRC's conduct in compliance with statutory requirements. The main duty of the AG is to provide and present federal annual reports to the King in parliament. No state government, including the SIRC of the state, is excluded. The audit report of each state government is also provided and presented in the SLA, similar to those in parliament. The SIRC are responsible to any AG inquiries although they have no direct relationship with the federal government. The AG is deeply involved with legal affairs, given the power of authorisation indirectly by the federal government. Besides the AG, other governmental entities such as the *YADIM*, *IKIM*, *JAKIM* and *JAWHAR* are also considered to be stakeholders of the SIRC in pursuant to the impact factor. Any SIRC actions may affect and be affected by these governmental entities based on their respective functions (see Table 3.2., p. 59).

Other than governmental entities, the financial supporters of SIRC are creditors, financial institutions and suppliers. Their ability to repay borrowings may be affected by the SIRC's actions and decisions, particularly financial. Any interest related to economic affairs is clearly stated, based on a contractual relationship (Gray *et al.*, 1996).

As Tan (2012) reveals, media reputation is significant and therefore should not be discounted as stakeholders of the SIRC. It might be used to persuade the public to contribute to fund-raising (Heijden, 2013; Zainon *et al.*, 2011; Jetty and Beattie, 2008; Hyndman, 1990). Media reports of SIRC's actions directly affect the SIRC. Indeed, based on the impact factor of accountability, the media is another interest group with a social interest.

A group of internal stakeholders in the SIRC consists of employees, from the bottom to the upper levels including all employees from supporting staff to the heads of departments, managers to CEOs and CEOs to the board members of the SIRC. The highest chain of accountability involves the board members of the Ruler and the state governments. These chains can be regarded as directly accountable, based on the authorisation power factor with different interests. The CEO, chairman and the boards of SIRC are appointed from the state party; hence they seem to have political interests unlike the Ruler who has no political interest, because his power is granted by appointment using a hereditary (inherited) royal system. The Ruler instead is very concerned about the economic and legal interest. A social interest may also be justified by the Ruler to ensure that Malay cultural values and the religion of Islam are preserved in the SIRC's conduct. On the other hand, other employees such as supporting staff, heads of departments and managers are interested in economic factors, especially in their salaries and non-financial benefits. They are affected by the SIRC's actions and decisions on such matters, which has even become an impact factor in the accountability relationship.

Finally, the public stakeholders such as contributors and beneficiaries may be impacted by the decisions and actions of the SIRC, in particular by their performance in the collection and distribution of funds. Eventually, not only do the beneficiaries profit from the developments, but any facilities provided by the SIRC also help the local community. Hence, the impact factor is explained by the existence of an accountability relationship with the public.

Both contributors and political support from the public at large could also be strengthened between the public and the SIRC. Firstly, this is based on the premise that more than half of the income for SIRC is derived from *zakat* collection. Secondly, the use of an electoral system for the appointment of the chairman in some SIRC, may view the public as voters for political support. As a result, economic and social interests seem pertinent within the SIRC context, even with some political interest.

### **2.3.2 Accountability for what**

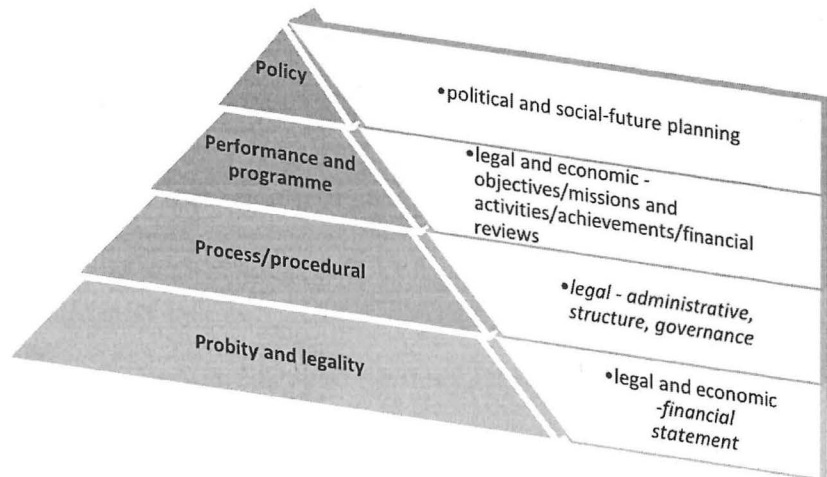
The question of what kind of information stakeholders require in an annual report is an elaborate issue concerning the whole rationale for accountability. Every *accountor* (agent) has their own scope of accountability which may help to identify the focus of accountability and as a result, the content of the annual report (Bovens, 2007b; Sinclair, 1995; Gray and Jenkins, 1993; Stewart, 1984). Indeed, the term 'scopes of accountability' is relevant to understanding the type of accountability.

Traditionally, government entities put the emphasis for accountability on regulations about the type of account to be reported. Parker and Guthrie (1993) demonstrate that civil officers should adhere to stipulated procedures and any budget expenditure limits should not be contravened. Gray and Jenkins (1993) use financial codes of accountability in which they argue that traditional financial codes in the public sector have been grounded in legal interests, referred to as authorisation and appropriation rules. Sinclair (1995) includes the financial aspect as having more direct answerability to the society. As Najam, (1996) points out, financial accountability for the government emphasises spending designated money for designated purposes. This has become a major concern in the traditional public sector for fiscal compliance.

Nevertheless, recent trends have resulted in a new approach in line with NPM, which focuses on performance. As Hood (1995) indicates, traditional accountability is insufficient due to the strong emphasis on accounting for performance. Pollitt (2006) stresses that government entities are required to report their outputs and link them with outcomes. Consequently, in response to NPM accountability, traditional accountability has shifted to a focus on performance.

Stewart (1984) outlines a hierarchical accountability relationship for public sector organizations, in which each level in the 'accountability ladder' has different information needs. As the hierarchy moves up the 'ladder of accountability', more precise accounts of actions are expected. Figure 2.1 below presents the accountability ladder.

Figure 2.1: Accountability, rationalities and disclosure



Source: Author's own

Several accountability interests on the aforementioned four rationalities, such as social, political, legal and economic, could be integrated with the focus of accountability. Financial accountability is concerned with both legal and economic rationalities in order to ensure probity and the efficient use of financial resources. The financial statement is therefore pertinent to all these demands. Process accountability stresses the legal aspect for rule adherence in an effective manner, fulfilling the mission and following the hierarchy, which has led to the need for administrative structure and governance disclosure. Such an approach is a deeply traditional trend in the government, aimed at fiscal compliance and probity.

Nevertheless, managerial accountability and policy focus are in line with the NPM approaches. Managerial accountability seems to rely on performance evaluation to achieve its goals, in addition to legal and economic rationalities. Financial reviews and non-financial achievements such as activities and programs are related to managerial accountability. Policy accountability is influenced by political and social aspects in



identifying effective policies to support future achievement which could be shown in a forthcoming planning statement.

The scope of accountability as discussed by Stewart (1984) is applied within SIRC who are required to prepare financial statements and other records in accordance with Act 250, Statutory Bodies Act 1980. Being the receivers of funds from the state governments who are held responsible to themselves, SIRC are also accountable to the state governments for their performance, responsibilities and resources given to them. Each state government requires accountability relating to financial records and activities of the SIRC. Both performance measures in financial and non-financial terms are important to the state government in order to generate public support, especially concerning results or outcomes (Hyndman and Anderson, 1995; Tooley and Guthrie, 2007). This gives an indication to the public that the state government is really concerned about public welfare and monitors the SIRC's actions, because public confidence is crucial for the elected government.

Therefore, SIRC are accountable to their respective state governments for financial accountability, process accountability and managerial accountability as suggested by Stewart (1984). Apart from this, policy accountability also seems relevant since SIRC should be able to prove that they are accountable to achieve their objectives in accordance with statutory policies. Likewise, the four accountabilities, namely, financial, process, managerial and policy, are sought by the top management of SIRC. According to the hierarchical relationship, SIRC are responsible to the

board members of the SIRC through their CEO or chairman. Finally, the board is accountable to the respective state government. This infers a direct relationship between SIRC and the state government and the management within the SIRC.

In contrast, the federal government has an indirect relationship regarding the SIRC's accountability. However, the annual grant awarded to SIRC through the state government renders SIRC still accountable to the federal government. Similar to the state government, policy, financial and process accountability are the main concern of SIRC to the federal government. Nevertheless, managerial accountability is not considered pertinent as the effectiveness and efficiency of SIRC are the responsibility of the state, but the federal government provides advice through federal agencies.

Legal compliance is another concern of SIRC to satisfy the Auditor General (AG) requirements. Process accountability is additionally required in performing an audit examination on the SIRC to evaluate whether the planned programmes and activities have been successfully implemented in a timely manner without any wastage (National Audit Department, 2012a). This implies that SIRC are accountable to the AG for financial compliance, process and managerial accountability, since SIRC are subject to possible calls for any inquiries relating to finance and performance matters.

Another interested group of stakeholders is creditors and employees. Since they existed in the accountability relationship based on the contractual agreement, their needs are straightforward according to agreement. The creditors have a right to know about the ability of SIRC to pay their debts;

hence financial accountability is pertinent. SIRC have the responsibility to make appropriate use of their money and to take care of their financial status and payment ability. In contrast, employees have different interests since they are concerned with their basic pay and other benefits such as bonuses, allowances and non-financial benefits. Certainly, the financial position of the SIRC could cause them to reflect on the stability of working in SIRC. Similar to creditors, employees are also interested in financial accountability.

The public as contributors, donors, service recipients and beneficiaries are considered to be stakeholders, consistent with the public accountability paradigm. Although there is no specific provision to explain the needs of the public, it has the right to be informed of the SIRC's activities. An audit report should be tabled and presented in the parliament to enable a more efficient process in communicating information to the public. Following this, necessary actions can be taken on any issues observed to enhance the public trust (National Audit Department, 2012b). Although audited financial statement is the main concern here, the public has the right to access any information beyond the financial statement. Despite no such provision, the public still has the right to request justification about the SIRC's performance.

Importantly, all of the stakeholders from the federal and state governments, the AG and employees are accountable to God. The Ruler is the head of the religion of Islam empowering SIRC to act on behalf of him. This implies that SIRC have been established as Islamic setting bodies in the

public sector. Focusing on the religion has been recognised as part of the cultural values appreciated in the NPM (Haque, 2007). As such, it offers an additional value drawn from high principles such as religious belief, moral, ethical and cultural traditions which influence the individual conscience (Lindkvist and Llewellyn, 2003; Laughlin, 1996; Sinclair, 1995; Schweiker, 1993). This differentiates SIRC from other governmental entities leading to the relevance of social accountability that might influence disclosure practice within SIRC.

Given the high public demand today, a wide-ranging scope of accountability is essential to enhance the roles of SIRC by satisfying numerous stakeholders. A different scope of accountability may characterise varying needs for information, driving the present study to examine the disclosure being practised, consistent with the aforementioned needs of stakeholders. This can be summarised in Table 2.2.

**Table 2.2: Accountability within SIRC**

Accountees	Accountability to whom	Justifications for the accountability	Accountability for what
External	Federal and state government	Power of authorisation Financial support	Political, economic
	Auditor General	Power of authorisation	Legal
	Sister government agencies	Impact factor	Social
	Creditors	Financial and impact factor	Economic
	Media	Impact factor	Social
	Contributors, donors and beneficiaries	Financial support Impact factor	Economic, social, political
Internal	Ruler	Power of authorisation	economic, legal, social
	Chairman, CEO and BOD	Power of authorisation	Political and economic
	Management team	Power of authorisation and impact	Economic
	Employees	Impact factor	Economic

### **2.3.3 Nature of accountability**

There are variations in the accountability chain within SIRC that may also influence the disclosure practice. The bond of accountability occurs in the formal relationship between SIRC and external parties such as state government and creditors, and similarly SIRC and their employees due to the formal relationship which is subject to stipulated legal binding. In contrast, informal nature identified in the link of accountability within SIRC, involves external stakeholders, like the Auditor General, other regulators, sister organisations and interest groups. The public bodies include contributors, beneficiaries and voters because of their emphasis on responsiveness.

The formal accountability relationship between each SIRC and the state government is provided in Section 3 of the constitution and Act 250 of the Statutory Bodies Act 1980 and thus, every SIRC is subject to such provisions. Another formal aspect of legal accountability emerges through the contractual agreement which involves creditors and SIRC employees through their CEO. Even within the SIRC themselves, there are contractual agreements between SIRC and their employees. The accountability relationship exists between the staff and the Head of Department according to the organisational hierarchy, whereas the ultimate principal is the CEO. The staff are accountable to their respective superiors based on the contracts that specify their employment conditions and job descriptions. Indeed, the formal nature of this accountability chain is objective and has resulted in a 'bond of accountability'.

In contrast, the informal accountability which gives rise to the 'link of accountability' exists between the SIRC and the federal government, because the latter is indirect through the state government. Next, in relation to the Auditor General (AG) as an independent overseeing body, on behalf of the AG, an auditor has the right to call any civil servants of SIRC to respond to inquiries, if required. The auditor has no power to punish their conduct during the course of the audit examination. Both the federal and the state governments, however, have a formal accountability relationship with the AG.

Besides, the government and the AG, the informal accountability relationship includes other government agencies, interest groups and the public. They have a limited power to punish or reward SIRC, except maybe through publicising any dissatisfaction in the media or making complaints to the relevant authority. As elsewhere in the public sector, there is a Public Complaint Bureau in Malaysia which is located in the Department of the Prime Minister. Although the public may lodge their complaints directly to authority in the federal or the state government, they do not have any statutory power to impose sanctions.

Focusing on SIRC, after receiving any complaints from the public, the bureau may examine such complaints and bring them to the state government to take the necessary action in response to the complaints. The SIRC therefore do not seem to be directly accountable to the public. Due to this limited power, the accountability relationship between the SIRC and most of the external stakeholders like the public can be considered to

be a link of accountability with an exception for those involved in contractual agreements. Such accountability has to be addressed through discharging mechanisms and this subject is dealt with in this study, through annual report.

## 2.4 Chapter summary

This chapter has discussed accountability concepts. In particular, two accountability issues concerning accountability within SIRC have been addressed here; 'to whom' and 'for what', which can be informed using relational and scopes of accountability. Both issues are influenced by individual knowledge in relation to 'imposed' and 'sense' dimensions to explain accountability. This gives rise to communication about the actions of the SIRC for discharging SIRC's accountability through reporting. The present study views a comprehensive annual report as a means for the discharge of accountability, specifically for SIRC. The accountability model for SIRC is illustrated in Figure 2.2, where the relationship arising between the SIRC and other stakeholders is important for identifying the accountability hierarchy and its scope.

Figure 2.2: Accountability model for SIRC



Based on Figure 2.2, apart from the conceptual framework, accountability classifications may address two issues in public sector, namely 'accountability to whom' and 'accountability for what'. In response to 'accountability to whom', the relational accountability can be explained using hierarchical upward and downward accountability. The former is identified formally from legal, political and economic standpoints whereas the latter is motivated by the public in an informal nature. An 'accountability for what' can be justified through the scope of accountability which underlines probity and legality, process, performance and policy accountability. Moreover, both aspects of relational and scope of accountability are influenced by individual accountability (see Section 2.2.3); this involves either internal (sense) or external (imposed) dimensions being possibly translated into *accountors'* actions. The former emphasizes values like beliefs, morality and culture in conducting actions, whereas the latter perceives the way others judge them which often relies on rule imposition. In this study, Islam is defined as a source of value to explain accountability in the SIRC.



## **CHAPTER 3 THE STUDY SETTING**

### **Malaysia and State Islamic Religious Councils (SIRC)**

#### **3.1 Introduction**

This chapter concerns Malaysia to discuss attributes of the Malaysian background. It is divided into three sub-sections: the governance structure, the King, Rulers, governors, and the Islamic affairs administration. Section 3.3 provides an overview of the State Islamic Religious Councils (SIRC). The five sub-sections are establishment, functions, funding of the SIRC, main income from zakat proceeds. Section 3.4 is a summary.

#### **3.2 Background of Malaysia**

Malaysia is a federation, consisting of federal territories (Kuala Lumpur, Putrajaya and Labuan) and thirteen states. Locations are divided by the South China Sea into Peninsular Malaysia; eleven states and two states in Borneo and a Federal Territory<sup>13</sup>. Every state has an assembly which is governed by a Chief Minister. According to the Malaysia Demographics Profile (2013)<sup>14</sup>, Malaysia has a population of 29.6 million comprising multi-ethnic groups: Malay (50.4%), Chinese (23.7%), Indigenous (11%), Indian (7.1%) and others (7.8%). The multiple ethnicity is reflected in the major religions practiced in which are Muslim (60.4%), Buddhist (19.2%), Christian (9.1%), Hindu (6.3%) and other religions (4.9%).

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<sup>13</sup> Federal territory comprises Kuala Lumpur and Putrajaya located on the Peninsular of Malaysia and of Labuan on the island of Borneo.

<sup>14</sup> Refer [http://www.indexmundi.com/Malaysia/demographics\\_profile.html](http://www.indexmundi.com/Malaysia/demographics_profile.html). Accessed on 14 February 2014.

Once a British colony, Malaysia practices a system of Parliamentary Democracy modelled on the British system of government. Thus there is a constitutional monarch as the head of state (Article 3 of the Federal Constitution) and a two tier system of government: The Lower House - the House of Representatives (*Dewan Rakyat*); is populated by elected representatives, and the Upper House; the Senate (*Dewan Negara*); is populated by appointed senators who are unelected.

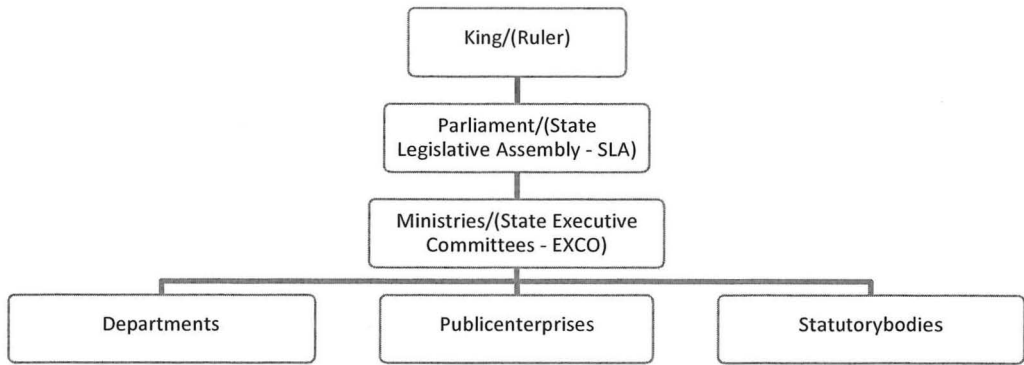
The King is the Supreme Head who carries out his functions according to the advice of the Prime Minister and his cabinet of ministers (Article 32 of the constitution). The King is appointed by the Conference of Rulers<sup>15</sup> for a five-year period according to a rotating succession system. Parliament consists of 70 members in the Upper House, 40 of whom are appointed by the King, 26 by every State Legislative Authority (SLA) and 4 by the federal territories, comprising Kuala Lumpur (2), Putrajaya (1) and Labuan (1). The SLA is similar to the federal parliament, thereby comparable to the state executive, an identical relationship to the parliament and the federal executive. In contrast, there are 219 members of the Lower House democratically appointed through a general election every five years (Samaratunge *et al.*, 2008). The positions of the King/(Ruler) and parliament/(SLA) for the federal/(state) government<sup>16</sup> are illustrated in Figure 3.1.

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<sup>15</sup> The Conference of Rulers consists of nine State Rulers whose prime function is to elect the King and the Deputy King for each stipulated term. The conference is regarded as a third chamber of the Parliament.

<sup>16</sup> The Malaysian government is divided into three levels: federal, state and local government. The third level of government i.e. local authority is not related to the present study but under the jurisdiction of the state government similar to SIRC.

Figure 3.1: Structure of the federal/(state) government



From Figure 3.1, the federal government administration is assisted by several ministries, each of which is responsible for one or more departments, public enterprises and statutory bodies. These departments were set up to implement policies and carry out activities of the respective ministries. Established under the Companies Act 1965, public enterprises are owned and controlled by the government. Statutory bodies on the other hand, established under the Statutory Bodies Act 1980, are self-autonomous in terms of finance and management. They are considered as government entities and are not bound by the Companies Act 1965; rather it is incorporated pursuant to the provisions of federal law and is a government agency (Act 240, Statutory Bodies Act 1980).

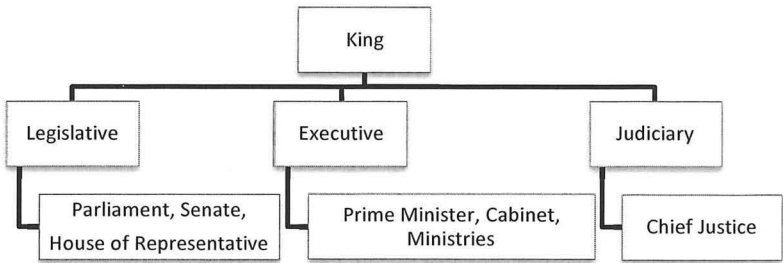
State governments, have a similar hierarchy with the federal government in two parts; State Legislative Assembly (SLA) and State Executive Committee (EXCO). It has a unicameral (single chamber) legislation i.e. the supreme head of which is the State Ruler (or governor in the states with no Ruler) and SLA as illustrated in Figure 3.1. The SLA members are elected every five years. The cabinet in the federal ministries is similar to the EXCO at the state levels and is chaired by the Chief Minister who carries out the

day-to-day affairs of state government and is collectively responsible to the SLA. The state government level, similar to the federal administrative machinery, consists of the state departments, public enterprises, statutory bodies and local authority<sup>17</sup>.

**3.2.1 Governance structure**

The Malaysian Federal Constitution divides the authority of the federation into three types: Legislative, Executive and Judiciary with the King as the constitutional monarch (Milne, 1976). Figure 3.2 illustrates the separation of powers in the federal government of Malaysia and their components.

Figure 3.2: Separation of powers in the Malaysian federal government



Source: Adopted from Rauf et al. (2008, p. 9)

Legislative authority is vested in the parliament/(SLA) and is led by the King/(Ruler) at the federal/(state) government level (Article 44 of the constitution). The King is constitutionally the source of all legislative, executive and judicial authority upon the advice of the Minister who heads the cabinet. Legislative power permits the making of new laws, amending or repealing of existing laws, levying taxes, changing existing taxes and sanctioning the expenditure of public money. The Parliament however,

<sup>17</sup> The local authority is governed by the Local Government Act, 1976. Section 2 of the Act provides local authority means any city council, municipal council or district council.

may delegate its law-making power to other bodies among the government agencies, politicians and expert committees as it frequently does.

Executive power is vested in the King but it is exercisable by cabinet ministers and led by the Prime Minister (Article 39 of the constitution). The cabinet is composed of ministers representing the majority party in the parliament while the cabinet members are appointed by the King on the advice of the Prime Minister. The Prime Minister is appointed by the King as the cabinet members. The cabinet is chosen from the members of Houses of Parliament.

The Prime Minister is the leader of the party that has a majority in the House of Representative whereas the cabinet is collectively responsible. Milne (1976) argued that in a democratic system, the Prime Minister eventually acts as the chief executive and the government is characterised by the cabinet. Milne (1976), moreover, highlights that the cabinet is collectively responsible to parliament not to the King. Having the executive power allows the formulation of policies, implemented by government administrative agencies. At the state level, the Ruler/Governor of each state is responsible for acting on the advice of the EXCO whose members are elected as members of the SLA<sup>18</sup>.

The structure shows the Malaysian Constitution has assigned substantive power to the administration. Likewise, Schedule Nine of the constitution

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<sup>18</sup> In both states on the island of Borneo, namely, Sabah and Sarawak, EXCO is known as the cabinet and the Supreme Council respectively chaired by their own Chief Minister.

divides constitutional powers and responsibilities for the federal, state governments and as joint-responsibilities as listed in Table3.1.

**Table 3.3:1: Constitutional division of power between the federal and state governments**

Federal List	State List	Concurrent List
Defence	Muslim religious law	Social welfare
External affairs and internal security	Islamic revenues e.g. <i>zakaṭ</i> , <i>waqaf</i> and <i>baitulmal</i>	Public health
Citizenship	Land ownership and use	Town and country planning
Finance and taxation	Forestry and agriculture	Drainage and irrigation
Trade and commerce	State works and water supply, when not federalised	Rehabilitation of mining
Shipping, communications and transport	Loans for state development and public debt	National parks and wildlife
Health and medicine	Malay reservation and custom	Scholarships
Civil and criminal law	State holiday	
Labour and social security	Local government	
Education		

Source: Adapted from Nooi (2008), Rauf et al. (2008) and Federal Constitution 1957

As shown in Table 3.1, the federal list, shows defence, external affairs, citizenship, finance, trade and commerce, health, civil and criminal law, labour and education. The legislative power for the state governments includes Muslim law, land, forestry, agriculture and local government. As Islamic affairs fall under the exclusive jurisdiction of the respective state government, the SIRC that are being studied in this research fall under state jurisdiction. However, the SIRC located in the federal territories fall within the direct jurisdiction of the federal government. The King/Ruler also has prerogative over Islamic matters and Malay customs.

### 3.2.2 The King, Rulers and Governors

As depicted in Figures 3.1 and 3.2, the King and Rulers also form part of the Malaysian administrative structure. There are nine hereditary Rulers who are known as ‘*Sultan*’<sup>19</sup>. The nine ‘Sultans’ exist in ‘federated’ and ‘non-

<sup>19</sup> This is with the exception of *Perlis* and *Negeri Sembilan* where the Rulers are called ‘*Raja*’ and ‘*Yang dipertua Besar*’ respectively.

federated' states. The King is elected from the nine 'Sultans' every five years, as the Supreme Head (YDA). The federated states are located in the central region (*Perak, Selangor and Negeri Sembilan*) and on the East coast (*Pahang*), and were formed in 1986 with the consent of the respective Rulers. They accepted a British Resident-General during the colonialist era who advised on all administrative affairs of state except Islam and Malay customs thus, indicating how all federated states yielded most of their powers to the federal authorities in the Federal Territory of Kuala Lumpur.

On the other hand, 'unfederated' states in the north of Malaysia (*Perlis, Kedah*) and on the East Coast (*Terengganu and Kelantan*), were established in 1909. They had a British Advisor whose role was similar to that of a British Resident but the Rulers resisted any move to decentralise the state administration and to surrender their powers (Mauzy and Milne, 1983). The remaining four states of *Malacca, Penang, Sabah* and *Sarawak* have no Ruler but are headed by a Governor who is appointed by the King.

They may even act without ministerial advice (Milne, 1976). Some of them may request meetings of the Conference of Rulers to discuss the status of the Rulers and religious matters, to perform functions as the principal authorities on Islam and Malay customs, to appoint heirs, to decide on and distribute Malay honours and to regulate royal courts and palaces.

The next section discusses the Islamic affairs administration in relation to this particular study SIRC in the Malaysian government with the presence of a constitutional head of religion.

### 3.2.3 Islamic affairs administration in the Malaysian government

The status of Islam as the established faith of Malaya was introduced at Independence. The federal government had no legislative authority over religious affairs and Malay customs. Article 3 of the constitution highlighted several key points. In particular, for federal territories, Article 3(5) stated that:

*“Notwithstanding anything in the constitution, the Head of the Royal Highnesses shall be the head of the religion of Islam in the Federal Territories of Kuala Lumpur, Labuan and Putrajaya and for this purpose, Parliament may by law make provisions for regulating Islamic religious affairs and for constituting a Council to advise the Royal Highnesses in matters relating to the religion of Islam.”*

Article 3(2) stipulates that the Ruler of the states is considered to be the head of the religion of Islam; Article 3(3) states that the head of Islam for states which no Ruler is the King.

Therefore, each state government is able to enact its own laws to govern the administration of Islamic affairs pertaining to Islamic-based financial resources derived from *zakat* (alms) collection and distribution, marriage and divorce, Muslim offences and so forth. Despite the exclusive jurisdiction of the state, this gives rise to an inconsistent interpretation and implementation of Islamic practices between states within the boundaries of Islamic precedents. The federal government has no power to impose its policies on Islamic institutions that are considered to be the responsibility of state governments. However, numerous efforts at the federal level have been made to coordinate and execute the policy-making.

Although the federal government lacks authority over the SIRC, there has been pressure to advise other agencies to preserve and coordinate the



administration of Islamic affairs. The challenge of safeguarding the purification of matters relating to Islam drives the federal government to share this responsibility with state governments. The Department of the Prime Minister (*Jabatan Perdana Menteri or JPM*) is responsible for the administration of Islamic affairs and it is headed by a Minister of JPM. The lack of resources in the state governments, especially in financial and expert personnel encourages JPM to be more aggressive.

Mauzy and Milne (1983) suggest that a larger federal bureaucratic infrastructure was established to direct and control religious activities in Malaysia. Consequently, to strengthen the precise understanding of Islam in the community, Siraj (2012) explains that under the authority of JPM, several departments and government agencies headed by a Minister of JPM were established. The year of inception and brief description on the functions of these entities is presented in Table 3.2.

**Table 3.2: Islamic of government entities related affairs**

Level	Governmental entities	Year	Functions
Federal	Islamic Da'wah and Foundation ( <i>Yayasan Da'wah Islam Malaysia or YADIM</i> ),	1974	to organise and coordinate programs and activities enhancing the Islamic understanding in a community towards national development.
	Institute of Islamic Understanding ( <i>Institut Kefahaman Islam or IKIM</i> )	1992	to enhance a clear understanding of Islam through publications and several programs and activities such as seminars, consultations and workshops.
	Department of Islamic Development ( <i>Jabatan Kemajuan Islam or JAKIM</i> ),	1997	to establish policies on the development of Islamic matters and to promote the purity of Islam and to coordinate Islamic laws and procedures and its implementation in all states.
	Department of Awqaf, Zakat and Hajj ( <i>Jabatan Waqaf, Zakat dan Haji or JAWHAR</i> ),	2004	to improve and strengthen the management of <i>zakat, waqaf and hajj</i> and to advice Ministers for any Islamic affairs that require precise interpretation prior to their implementations.
State	State Islamic Religious Councils ( <i>Majlis Agama Islam Negeri</i> )	1915	to advice the state Ruler on matters relating to Islamic affairs and Malay customs, to develop policies and responsible in administration of Islamic matters.
	Department of State Islamic Religious ( <i>Jabatan Agama Islam Negeri</i> )	1940	to implement policies on the development of Islamic affairs that have been laid out by SIRC and to administer the day-to-day of Islamic matters including the <i>Shari'ah</i> court.

The state governments have similar roles in Islamic development and advancement along with the establishment of SIRC and an Islamic Religious Department. Their first inceptions were found in 1915 and 1940 respectively and to date, each state in Malaysia has its own Islamic councils and Islamic departments. In the Ninth Malaysia Plan (*Rancangan Malaysia Kesembilan* or *RMK9*), the Honourable *Dato' Seri Abdullah Ahmad Badawi*, the former Prime Minister of Malaysia, mentioned that:

*"Some steps will be taken to enhance the capital resources of Malays, such as land and waqaf (endowment) assets, under the management of the SIRC. SIRC should fulfil Fardhu Kifayah (public obligation) and play active roles in the economic development of Muslims and help in the development of human capital". (RMK9, 2006, p. 39-40).*

This is the main point of the establishment of JAWHAR (see Table 2.2 on p. 46). However, it does not replace the roles of the councils since constitutional rights have been given to the respective states, but rather merely complements and strengthens their functions. However, the crucial roles of SIRC appear to be major concerns of the King and Ruler. Although SIRC have been constituted under the provisions of the Islamic Administrative Enactments of each state (Mahamood, 2000)<sup>20</sup>, the federal government aims at improving the effectiveness and efficiency of the SIRC.

Next, specific to the SIRC being studied, an overview of the SIRC's context is discussed.

### **3.3 An overview of State Islamic Religious Councils (SIRC)**

Odainkey and Simpson (2013) posit that the establishment of an organisation is essential to characterise the disclosure information.

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<sup>20</sup> The Administrative Enactments of each SRC is passed by their respective State Legislative Assembly (SLA) and by the Parliament for the Federal Territory SRC.

Organisational structure and the obligation of functions are also important to understand the accountability (Lindkvist and Llewellyn, 2003). SIRC are constitutionally under the Ruler's jurisdiction in the state administration as a result of colonialism period in 1874-1957<sup>21</sup>. The Ruler shall seek advice from the SIRC. Thus the SIRC has a unique status which serves as an advisor for the State Ruler.

### **3.3.1 Establishment of State Islamic Religious Councils (SIRC)**

The history of SIRC's establishment dates back to 1915 when one was established in Kelantan, soon followed by other states<sup>22</sup>. The Federal SIRC is governed directly by the federal government and the remaining thirteen SIRC are under the authority of the respective states. Each SIRC is established in accordance with the Administration of Muslim Law Enactment in each state, with the state Ruler acting as the head. The constitution delineates the administration of SIRC, autonomous of the state government rather than of the federation, as a statutory administrative structure, capable of exercising power and jurisdictions. Figure 3.3 depicts the general organisational structure of SIRC.

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<sup>21</sup> In 1874, during the colonisation period, there was the '*Treaty of Pangkor*' which implied that the Ruler (*Sultan*) was obliged to provide a suitable residence for a British Officer who was the resident. The resident had to be attributed to his court and his advice asked and acted upon in all questions other than those relating to Malay religion and customs.

<sup>22</sup> At present, there are 14 SRCs, located in each of the 13 states and 1 in the federal territory, formed under the auspices of the government of Malaysia.

Figure 3.3: Structure of organisation of SIRC



Source: Author's own

Although the executive power is vested in the Ruler, the Board of SIRC is appointed to exercise the Ruler's function. The board's function is similar to the board of directors in an organisation and is led by the Chairman of the SIRC. Some SIRC are chaired by either the Ruler himself or his representatives<sup>23</sup>, transferring the authority of the chairman from the Ruler to the state government through the Chief Minister<sup>24</sup>, whereas others have a chairman selected independently (Wahab and Rahman, 2011).

The composition of the council board is set out in the respective state enactment. For instance, SIRC in Federal appointed the Director of the Department as the secretary of the SIRC of the state. They may be appointed by the Ruler upon the advice of the chairman, eligible to be reappointed for a maximum of three years. Some of the SIRC board members include civil officers such as the chairman, vice-chairman, state secretary, state *Mufti* (Islamic scholars), state legal adviser, state finance officer, state chief police officer and corporate and other professional members who have relevant expertise in the SIRC's activities.

<sup>23</sup> SIRC in Perak, Perlis, Pahang and Kelantan.

<sup>24</sup> SIRC in Terengganu, Malacca and Negeri Sembilan.

There is flexibility in the appointment of SIRC board members, who can range from politicians to professionals. Nooi (2008), however, argues that most of the board members are politicians from the ruling party<sup>25</sup>. The state governments are responsible for the appointment and dismissal of board members (National Audit Department, 2012b). Similar to corporations, the board for SIRC is appointed to carry out managerial functions, principally to formulate general policies and monitor their implementation. Dispute in SIRC daily operations are raised according to the hierarchy from the respective head of unit/department, the Deputy CEO, the CEO and to the board. The board should be able to resolve any SIRC problems according to Islamic precedents because the composition of the board members ranges from professionals to Islamic scholars.

### **3.3.2 Functions of SIRC**

The constitution of Malaysia resembles British common law which covers most areas of life and it is applied nationwide. Nevertheless, matters related to Islamic affairs are provided in Article 74 of the constitution which grants every state the right to interpret *Shariah*. This law is applied to a person practicing the religion of Islam (*Muslims*) in respective regions. Under Islamic jurisdiction are the more social areas of family and religion, for example: marriage, divorce, dowry etc. Revenue likewise comes under their purview and includes: religious endowments (*waqaf*), alms (*zakat*) and treasury (*baitulmal*). Institutions operate within the states except formatters included in the Federal List in the constitution, when they are

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<sup>25</sup> Although she is here referring to the local authorities in Malaysia, it also applicable to SRCs since local government is also a state matter like SRCs.

subject to State List authority (see Table 3.1, p. 55). Consequently, the administration of Muslim wealth is carried out by the SIRC independently.

The establishment SIRC is headed by the Ruler in each state and the King respectively to administer Islamic law and to establish a state court system applying Islamic jurisprudence<sup>26</sup>. SIRC play charity roles that benefit Muslims and the local community. They are recognised as the highest statutory authority in the state, forming policy for Muslim revenue matters, written in the Ninth Schedule, Federal Constitution. SIRC are responsible for promoting the development of social welfare within the boundaries of Islam. As the SIRC were established in the public service setting, public accountability perspective is pertinent. The public has a right to be fully informed about the performance and condition of the public organisational setting (Coy *et al.*, 2001), this information necessarily satisfying the needs of a broad range of stakeholders. This implies the uniqueness of SIRC which play social roles in religious-based and public service setting. With this wide range functions, funding for SIRC's operations has become increasingly important. In addition to financial assistance from government, they have other own fundings; these are discussed next.

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<sup>26</sup> However, in states with Rulers some statutes require that the Chief Minister advise the *Ruler* whereas others permit the SRCs to provide advice. In fact there are still some states which do not provide clearly for any person to advise the *Ruler*. There is indeed a lack of uniformity in the SRC management structure.

### **3.3.3 Funding of SIRC**

Several types of funding characterise the flexibility of SIRC in managing their managerial operations (Siraj, 2012). Despite SIRC being established in accordance with the various state enactments, their main role to increase the well-being of the citizens is challenging, especially as far as financial autonomy is concerned. The financial capacities of SIRC and the huge responsibilities they have been assigned, place demands for even greater efficiency for all SIRC in the foreseeable future (Mahamood, 2000).

Although they are pursuant to the state government, financial provision from the state is limited compared to the federal SIRC. The federal government allocates a financial grant to the federal SIRC as it is governed directly by the Prime Minister's Department, showing that it has financial privilege over other SIRC.

Ministerial Functions Act 1969 (Act 2, amended 1999) declares that statutory bodies have power to lend, borrow, invest, establish subsidiary companies, manage funds and trust accounts, and implement activities and programmes. Although SIRC are entitled to obtain government grants every year, they are nevertheless encouraged to generate their own funds to finance their operations. Such wealth accumulation could enhance them to expedite socio-economic development in their respective states. SIRC are subject to their own incorporation subsidiary legislation that outlines their purpose and powers of autonomy.

Mahamood (2000) argues that funding is one of the long-standing constraints for SIRC, preventing them from functioning effectively where the financial resources are not compatible with expected services, consequently affecting their future. However, the Malaysian government in the Ninth Malaysian Plan (2006-2010) has allocated RM250million<sup>27</sup> (approximately GBP46.7million) specifically for improving the capacities of SIRC which can benefit by financing their operations. Despite financial assistance from the state government and the federal government (through the state government)<sup>28</sup>, SIRC usually finance their operations using their own income generated from activities such as fees for the administrators of Muslims revenue, rental and investment income from commercial activities, endowed property received and donations from the public. The three main sources of revenue for SIRC are: *waqaf* (endowment), *baitulmal* (treasury) and *zakat* (alms/tithe).

*Waqaf* (endowment) is a privately owned gift, with restriction from transactions such as sale, inheritance, *hibah* (grant) and *wasiyyah* (will). Its physical source remains intact and unchanged. Islam regards endowment ownership as non-permanent because it has been assigned to God for socio-economic benefit. The *Prophet Muhammad*<sup>29</sup> said that, "when a son of Adam dies, so do their deeds except for three things: *zakat* (alms), benefited knowledge and a pious son who prays for them". In the Holy *Quran* (2:261), God mentions that, "The likeness of those who spend their

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<sup>27</sup> GBP1 = MYR5.36 on 13 December 2013.

<sup>28</sup> This is an exception for the federal SRC where it obtains a direct financial grant from the federal government.

<sup>29</sup> Prophet Muhammad is a messenger of Allah for Muslims who acts as a role model for Muslim societies and individuals.



wealth on God's way is as the likeness of a grain which grows seven branches on every branch containing a hundred seeds. And remember Allah<sup>30</sup> will give manifold increase to what he will and Allah is all-embracing and all-knowing". Both verses provide supportive evidence of rewards to the giver to encourage Muslims to commit to endowment.

There are two types of *waqaf*: i) Family Waqaf (*Waqaf Ahli*), created for immediate family members; ii) Charitable Waqaf (*Waqaf Khairi*, designated for any charity purpose that benefits society. Charitable *Waqaf* can then be classified into two sub-categories: i) *Nazir Waqaf* for the development of the land that could be of benefit to society; ii) *Special Waqaf Khairi* which is the wealth specified by a giver to be used for a specific purpose as requested by the *waqif* (giver) such as land for building a mosque, an orphanage, a business centre, an educational institution.

Such pious endowment in Islam could benefit many people, similar to the Western concept of charity. However, the promise of reward to the endowment giver differs from charity. Muslims are thus, encouraged to practise *waqaf*. The role of SIRC as a trustee of endowed properties is essential to discharge accountability of the endowed properties (Ihsan, 2007; Ihsan and Adnan, 2007).

*Baitulmal* (treasury) means inheritance that is left by the deceased to be distributed to members of the family. SIRC is entitled to receive a portion of an inheritance when either it has no named beneficiaries or surplus is unclaimed after legitimate distribution. The SIRC has been formally granted

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<sup>30</sup>Allah is a name of God for Muslims.

authority in such cases, prescribed by the State. Disputes can be referred to the Islamic court. Any unclaimed treasury belongs to the SIRC.

To conclude, SIRC act as trustees for both *waqaf* and *baitulmal*, and are entrusted to use such funds for socio-economic benefits in line with Islamic dictates. However, this is subject to the capacity and initiatives of the SIRC. For instance, in order to build premises on endowed land, suitable financial funds are required. Accordingly, SIRC in Perak implemented cash *waqaf* under the rules 18(2) *Waqaf Regulation Control* 1959, similarly followed by Penang in July 2005 (Htay *et al.*, 2012). SIRC make efforts to accumulate cash funds for their projects.

In a similar vein, Alias (2011) mentions community foundations in the U.S. that maintain a donor-advice fund to support religious, social, cultural and economic activities to promote philanthropy in the community. In Malaysia, the cash *waqaf* or any donations to institutions like SIRC are eligible for a tax rebate. It can be inferred that the government provides substantial support for social welfare in the nation. Thus, SIRC should take this opportunity to attract more funds for their projects by building public trust. Besides *waqaf* and *baitulmal*, the main revenue of SIRC is derived from *zakat* collection which contributes to almost a-three quarter of the total income in each SIRC.

#### **3.3.4 Income from *zakat* proceeds**

It was the practice of the prophet Muhammad to send *amil* (*zakat* collectors) to collect *zakat*. Accordingly, Qardawi (1999) suggests that *zakat* collection should be controlled by the Ruler of the Muslim state. In

Malaysia, the power of management of *zakat* is vested in SIRC on behalf of the King and Ruler. Eventually, the Ruler is the main administrator of *zakat* in each state, but he appoints the SIRC to collect and distribute *zakat* in the state in accordance with the state enactment.

#### **3.3.4.1 Definition of *zakat***

*Zakat* is a similar concept to tithe, but in Islam it is known as alms. In Islamic jurisprudence, the term *zakat* means giving a portion of one's private wealth to the rightful recipients. It is a religious duty, part of the worship imposed on Muslim as one of the five basic tenets in Islam<sup>31</sup>. There are five requirements of *zakat* obligation which are Islam, independence, absolute possessions, minimum value<sup>32</sup> and a-year. All Muslims are obliged to pay their dues in *zakat* if they are fulfil all the five conditions.

#### **3.3.4.2 Types of *zakat* (alms)**

*Zakat* can be divided into two types: *zakat fitr* (self) which is an obligatory charity imposed on every Muslim, beginning from the start of the fasting month and ending before the *e'id fitr* prayer<sup>33</sup>. However, the amount is relatively small, less than MYR10<sup>34</sup> (approximately GBP1.9)<sup>35</sup>. The second is *zakat* on wealth<sup>36</sup>; any Muslims whose wealth is above the *nisab* are required to pay *zakat*. It consists of several types; these are *zakat* on

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<sup>31</sup> There are five tenets in Islam. These are: i) faith or belief in the oneness of God and the finality of prophethood of Muhammad; ii) five times of daily prayer; iii) almsgiving (*zakat*) to the needy; iv) fasting in a month of Ramadan; and v) pilgrimage to Mecca for those who are able.

<sup>32</sup> In Malaysia, *zakat* is calculated based on the market value of gold equivalent to 85 gram.

<sup>33</sup> *E'id fitr* prayer is a prayer prior to a festival of fast-breaking.

<sup>34</sup> The *zakat* amount is based on the state SRC decision through the State *Fatwa* unit (decision by Islamic scholars). The *zakat fitr* is a flat fee that can be paid in the form of staple food or in the form of money. It is calculated by measuring a *mudd* of rice (Malaysian staple food) i.e. a little more than 2kilograms (kg) i.e. about 2.268kg of rice and the price is subject to the market price.

<sup>35</sup> Assuming GBP1 = MYR5.26 as at 11 January 2014.

<sup>36</sup> The rate of all *zakat* on wealth is 2.5% unless for crops and livestock is 5%-10%.

business, savings, employees’ provident fund (EPF), shares, income and gold/silver. Table 3.3 presents a typical computation of *zakat* on wealth.

**Table 3.3: Types of *zakat***

Zakat on wealth	Descriptions
<i>Zakat</i> on business	2.5% of the <i>zakat</i> able assets of the business. <i>Zakat</i> able assets refer to the value of the current net assets and short-term investments as shown in the Statement of Financial Position.
<i>Zakat</i> on savings	A 2.5% of sum of money for savings; regardless of its purpose if the savings balance has reached the minimum amount ( <i>nisab</i> ) for a complete a one-year period (haul).
<i>Zakat</i> on EPF (Employees Provident Fund)	<i>Zakat</i> on EPF savings is 2.5% of the total savings for the year withdrawal EPF (if the amount is above the <i>nisab</i> ).
<i>Zakat</i> on Shares	<i>Zakat</i> is levied at 2.5% on the lowest value of the year of shares owned by a payer after deducting debts or loans on the shares.
<i>Zakat</i> on Income	<i>Zakat</i> on income is 2.5% of a person's <i>zakat</i> able income.
<i>Zakat</i> on Gold and Silver	<i>Zakat</i> on gold is 2.5% of the gold value kept by a person for each year (if above the <i>nisab</i> of 85 gram). Jewellery made of other than gold and silver like diamonds and pearls is excluded from paying <i>zakat</i> .

Source: Data from Zakat Collection Centre of the PPZ-MAIWP (2002, p.80-92)

### 3.3.4.3 Recipients of *zakat*

The basic principle regarding the distribution of *zakat* has been outlined in the Quran (9:60):

*“Alms are for the poor and the needy and those employed to administer the zakat funds and for those whose hearts have been reconciled to truth and for those in bondage and for those in debt in the cause of Allah and for the wayfarer”.*

This verse implies that there are eight categories of recipients for those who are entitled to *zakat* funds. They are: the indigent<sup>37</sup>, the needy<sup>38</sup>, *zakat* administer, the sympathisers<sup>39</sup>, the emancipated slave, the person in

<sup>37</sup> The Economic Planning Unit (2006) described in the Ninth Malaysia Economic Plan for 2006-2010 (*Rancangan Malaysia Kesembilan or RMK-9*) that the household income for the indigent (*faqir*) is below RM400 that is for spending on food consumption. However, it is subject to the SIRC’s definition of the poverty level.

<sup>38</sup> The RMK-9 defines the income measurement level in Malaysia as between RM400-RM691 for every household. Similarly, SIRC may create their own measurements for the needy groups of people as the recipients of *zakat*.

<sup>39</sup> The purposes of *zakat*-giving are to strengthen their faith in Islam and to develop a sense of belonging among Muslims.

debt, the person sacrifices for the cause of God<sup>40</sup> and the person who is stranded during a journey<sup>41</sup>.

The eight groups of recipients are designated in the Quran to avoid any misconduct in the *zakat* distribution. Despite these guidelines, however, some situations require interpretation from SIRC as laid down according to the Islamic precedents. Importantly, SIRC should play vital roles to enhance their accountability for the various Islamic resources entrusted to them, bridging the gap between rich and poor people. This shows the importance of SIRC being held accountable to the wide range of stakeholders.

### 3.4 Chapter Summary

This chapter has introduced Malaysia in terms of the governance structure in relation to Islamic affairs and a background to this study concentrating on SIRC context. Explanations of the funding, especially of the main source of revenue from *zakat* collection and of distribution have been given. Such clear definition of the SIRC context may help to identify the appropriate framework of accountability in this study. Both accountability and disclosure are two main subjects dealt with in this study. The next chapter will provide the research philosophy and theoretical framework underlying the present empirical study.

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<sup>40</sup> Those who have sacrificed for the love of God through building and developing society's infrastructure; defending Muslims who are oppressed and sponsoring students' educational expenses.

<sup>41</sup> Travellers who are facing difficulties in continuing their journeys due to reasons such as the loss of money or a vehicle breakdown.

## **CHAPTER 4 RESEARCH PHILOSOPHY**

### **Research Paradigm and Theoretical Framework**

#### **4.1 Introduction**

Every piece of research is guided by a paradigm dictating how the research should be conducted. This study uses a 'pragmatism' paradigm, which lies between positivism and interpretivism. Laughlin (1995) states that a researcher has to understand the phenomena, in which the knowledge becomes theory. The theory, however, is not transferable to other phenomena (Broadbent and Laughlin, 2013). Phenomena and theories are distinct and should be approached as such (Laughlin, 1995). Theories must first be identified before they can guide empirical inquiry informed by the 'theoretical decision' (Laughlin, 2007).

This chapter comprises a discussion of the theoretical position of this study, organised into the following sections: Section 4.2 discusses the philosophical paradigms in which this study can be positioned. Section 4.3 discusses related disclosure theories pertinent to this study. Finally, this chapter ends up with a summary in Section 4.4.

#### **4.2 Research paradigms**

Any research is characterised by how a researcher positions it ontologically and epistemologically (Grix, 2004). Ontological position refers to a researcher's understanding of the nature of the reality to be researched, namely, how the researcher views what is knowledge. The epistemological position is the nature of the relationship between the knowledge of the

researcher and the reality to be researched, in other words, how the knowledge is acquired. Ontological and epistemological perspectives tend to be closely linked within the stance of a research paradigm (Crotty, 1998). Indeed, a researcher should have specific assumptions about how an inquiry is learned and what is discovered during the inquiry (Creswell, 2014). Collis and Hussey (2009) argue that all research paradigms (in the social sciences) fall along a spectrum between positivism and interpretivism.

#### **4.2.1 Positivism paradigm**

The positivism paradigm is associated with an objective continuum based on a single reality, treated independently from the researcher (Creswell, 2011). Positivists place emphasis on an examination of social reality, in which the final product can be generalised in a similar way to the natural sciences (Saunders *et al.*, 2012). Amaratunga *et al.* (2002) describe reality as being discovered through searching for causal explanations and fundamental laws also, generalising the findings. This approach is widely used and has been proven as a successful scientific method especially in the natural sciences (Saunders *et al.*, 2012).

Positivism is associated with quantitative approaches and often, involves empirical observations and testing of theories. Nonetheless, the interdependence of human behaviour has led to varying degrees of criticism being levelled at this paradigm (Cohen *et al.*, 2009). Positivists posit scientific indications but often ignore social aspects like feelings,

perceptions and behaviours. Thus, the positivists' paradigm seems not to be pertinent to some of the social sciences fields.

#### **4.2.2 Interpretivism paradigm**

At the other end of the spectrum to positivism lies interpretivism (constructivism and phenomenological paradigm are used interchangeably). These paradigms are based on multiple realities, which, being influenced by an individual's consciousness, are highly subjective (Collis and Hussey, 2009). This paradigm is concerned with the belief that social reality is not only subjective based on the experiences of an individual (Belkoui, 2004), but also socially constructed. The relationship between researcher and research has led to the importance of understanding the relationship in a phenomenon (Creswell, 2011). The human interdependence is often subjective to describe and analyse the behaviour of humans through interpretation of the phenomena. Interpretivism is related to a qualitative approach, which concerns understanding phenomena and generating theories.

Nevertheless, in order to expand qualitative data and deepen descriptions, quantitative aspects may be considered (Mackenzie and Knipe, 2006). Both approaches appear to address the limitations of the positivism paradigm for a better understanding of the phenomena. This posits the idea of a combined approach, i.e., for qualitative studies to "resist any conservative attempt to discredit qualitative inquiry by placing it back inside the box of positivism" (Denzin *et al.*, 2006, p.773). Despite the merits and shortcomings of positivism and interpretivism, pragmatism is used in this



study because it concentrates on research problems, which offers flexible research approach, unlike interpretivism and positivism.

#### **4.2.3 Paradigm that underpins the present study**

Given the respective strengths and limitations of positivism and interpretivism, a combined approach is pertinent. Critical realism is placed in the middle between positivism and interpretivism (Grix, 2004), which appears to be an appropriate philosophical assumption for this study. It shares a realist ontology with objectiveness and allowing for interpretation.

Within the 'realism' notion, ontological assumptions assert that realities exist outside the mind and rely on the existence of reality but are driven by natural laws (Grix, 2004; Crotty, 1998). An epistemological perspective of 'realism' claims that the reality exists in objects independently of any consciousness and is a subjective interpretation of the reality considering human experience (Crotty, 1998). It acknowledges the existence of actual reality influenced by the human mind, thus requiring positivist and interpretivist elements for undertaking the inquiry. The ontological position in this study focuses on discharging accountability through reporting as either an objective reality, subjective aspect or the interaction of both. The disclosure issue can be regarded as falling somewhere along the continuum from objectivism to subjectivism. The present epistemology emphasises whether the same principles, procedures and ethos can be applied to SIRC's disclosure practices.

This study has three objectives which can be divided as follows: firstly, identifying the perceptions of stakeholders of SIRC concerning

accountability within SIRC (RO1), in terms of their perceived information and the importance and the influence of Islamic thought on the expected information. Secondly, evaluating the reality of SIRC annual reports against the information sought to be disclosed to identify the determinants (RO2). Thirdly, examining the basis of current reporting practices (RO3), how choices are made on what information is important also, the Islamic influence on such importance is clarified. The basis of disclosure/non-disclosure and the absence of annual reports despite its non-mandatory are further investigated. As a critical realist, the 'what', 'why' and 'how' approaches are examined in this study, as suggested in positivism and interpretivism paradigms. It seeks not only to understand the phenomena being studied, but also to interpret the social context.

The complementary nature of the paradigmatic extremes facilitates better understanding of the complexity of the reality. It appears reconciliation between the two extreme opposing paradigms which allows the use of triangulation research approach. Thus, this study relies on positivism without denying the usefulness of interpretivism (so-called pragmatism).

Given the strengths and weaknesses of each, researchers ought not to be restricted to a single approach (Saunders *et al.*, 2012). According to Cresswell and Clark (2001), one type of evidence may not tell the complete story. Thus, triangulation of data, methods and theories are relevant in adopting the pragmatism to enrich the research findings. This is because pragmatists are heavily concerned with the research problem rather than the philosophical worldview (Creswell and Clark, 2007, 2011).

### **4.3 Theoretical perspectives**

Numerous theoretical perspectives have emerged to explain disclosure practices. These include Agency Theory, Political Economy Theory, Stakeholder Theory, Institutional Theory and Legitimacy Theory (Ihsan, 2007; Deegan, 2006; O'Dwyer, 2002; Gray *et al.*, 1996; Eisenhardt, 1988; Cooper and Sherer, 1984; Jensen and Meckling, 1976). A single theory is not sufficient to explain the complex phenomena of disclosure practices (Hope, 2003). Deegan (2006) concedes the theories are complementary rather than competing. Thus, a blended consideration of several theories is suggested to contextualise them in relation to disclosure practices. It can provide empirical flesh to make the theories meaningful (Laughlin, 1995) through contextualisation. This study focuses on three theories; namely: Agency, Stakeholder and Political Economy Theory. Rationalities of the chosen theories are discussed next.

#### **4.3.1 Agency theory**

The main precept of agency theory relates to the self-interest of every individual. A relationship between principal-agent arises when the principal delegates the responsibility to manage the organisation to the agent (Jensen and Meckling, 1976). Nevertheless, because of the conflict of interest, the agent may not act in the best interest of the principal. The manager tends to disclose information that favours self-interests which result in information asymmetry. Verrecchia (2001) suggests information asymmetry reduction acts as a means to integrate the incentives to a comprehensive disclosure. Besides that, monitoring strategies are essential

to mitigate the conflict in the principal-agency relationship, embracing the transparency in the public sector. Sarker (2006) asserts that, in developing countries, incidences of corruption, authority abuse, theft, deceit and favouritism are found in politics and public administration. Such conflicts may motivate political managers to disclose information that allows the monitoring of their actions (Laswad *et al.*, 2005). This information is essential in showing accountability of the politicians and honouring their promise for re-election. This appears that agency theory is relevant to address the political agenda.

In a similar vein, public accountability is also pertinent in so far as it acknowledges the citizenry rights of the information of public service activities to minimise information asymmetry (Coy *et al.*, 2001). This study highlights that public accountability and agency theory notion are consistent. Governments are held accountable to use public resources for public benefit and to report to the public. This gives the public the right to take action against unsatisfactory civil officers. This signifies that the principals give power over the resources to the agents and indeed, the agents should pursue the best courses of actions in managing resources as desired by the principal including giving information about their actions (Laughlin, 1990). Within the purview of agency theory, this study views annual report as a means to discharge accountability of the agent (SIRC) to the public; through examining annual report (RO3) against the expectations of the principal while also considering the preparers' point of view as agents (RO1 and RO2). Nevertheless, agency theory is criticised

because it emphasises solely the agency-principal relationship without considering other stakeholders (Deegan, 2006). This study thus, attempts to investigate disclosure being practiced beyond the principal-agent concerns in relation to stakeholder management, so called the best reporting practices to enhance credibility of the disclosure.

#### **4.3.2 Stakeholder theory**

Stakeholders are defined as those who can affect or are affected by the actions of organisational activities (Freeman, 1984). Although this is an acceptable definition, the question still remains: who are the stakeholders? In this study, typical stakeholders are identified as those to whom SIRC may have responsibilities (see Table 2.2). Using the stakeholder theory, stakeholders can be explained based on two dimensions; ethical and managerial dimensions.

The ethical dimension concerns the rights of stakeholders. They must be treated fairly by an organisation even though they do not directly affect the survival of the organisation (O'Dwyer, 2002). Werhane and Freeman (1997) refer to this as a right-based approach which argues for fair distribution of resources. This is similar to the normative and public accountability perspective as promoted in several public sectors, not-for profit and CSR studies. Alam (2006) suggests that disadvantaged stakeholders should be paid attention because in reality they are ignored by the organisation as compared to the powerful stakeholders. Due to this, Islam and Deegan (2008) found that the majority of research does not use ethical dimension

of stakeholder, its fairness elements has led to its irrelevance (Dhanani and Connolly, 2012).

In contrast, the managerial dimension stresses the impact of stakeholders' power on the survival of an organisation. The various groups of stakeholders may be treated differently by an organisation depending on the power they have (Smith *et al.*, 2005). The power implies the degree of stakeholder control over the resources required by the organisation (Ullmann, 1985). Roberts (1992) states that as the level of stakeholder power increases, they will get priority on their demands since they are deemed important to the organisation (Alam, 2006).

This study attempts to mitigate this imbalance by identifying disclosure items that should be included in the annual report as suggested in a normative accountability. Using the stakeholder theory, this study develops a framework for SIRC's accountability in conjunction with the perspectives of stakeholders (RO1) and how choices are made underlying the disclosure practices of SIRC (RO3) to ensure a robust analysis. Furthermore, it will adopt the identified framework to decide the determinants of the annual report (RO2), Alam (2006)<sup>42</sup>. This study affirms citizenry rights to know about the public entities in relation to the local economy (Ismail and Bakar, 2011); similar in political economy theory.

#### **4.3.3 Political economy theory (PET)**

Deegan and Unerman (2006) relate PET with social, political and economic framework within which economic activity takes place. PET emphasises the

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<sup>42</sup> Focusing on how organisations design their reporting to address stakeholder concerns.

broader social system which impacts on how an organisation operates and what information it opts to disclose (Deegan, 2006). Within PET, Guthrie and Parker (1989) argue that disclosure as social, political and economic documents to transmit their meanings in a comprehensive report. There are two branches of PET: Classical and Bourgeois (Gray *et al.*, 1996). Classical PET refers to the interrelations between inequality, structural conflicts, sectional interest, class struggle and the role of the state. Cooper and Sherer (1984) further explain that accounting recognises power and conflict in society and in turn, distribution of income, wealth and power in the society should be reflected. The classical PET is concerned with the specific group of people (elite) who are powerful and disclosure seems a vehicle to uphold their dominance and political supports.

Bourgeois PET, on the other hand, ignores inequalities (Gray *et al.*, 1996). It perceives the world as pluralistic and that power is widely dispersed within a society (Cooper and Sherer, 1984). Consequently, Cooper and Sherer (1984) argue that no individual is able to continuously influence society. The government should play its role to protect individual rights and the public interest. This contradicts the classical PET notion that relies on the government to respond for the public benefit but in those who have power and wealth although it looks to act for the public benefit (Gray *et al.*, 1996). The Bourgeois PET overlaps the stakeholder theory (Deegan, 2006).

In this study, classical PET appears relevant to explain the disclosure practices. The structural inequality in Malaysia has led to varying information disclosure against the needs of different stakeholders (RO1

and RO2) which needs for government interventions. Indeed, this study also attempts to uncover policy matters on disclosure (RO3).

In conclusion, the above theories could be integrated with the typical accountability dimensions within SIRC. Agency theory is pertinent because the use of annual reporting is to minimise information asymmetry. Stakeholder theory posits all identified stakeholders should be treated equally. Political economy theory appreciates the citizenry right to information about SIRC, which has led to the intervention of government in relation to the accountability discharge through annual reporting practices. Therefore, agency, stakeholder and PET theories are the underlying theories of the present study.

#### **4.4 Chapter summary**

This chapter has discussed the research philosophy in this study, adopting pragmatism. It views critical realism which overlaps with positivism and interpretivism paradigm. The realist ontology used to examine something 'real' on disclosure practices of SIRC to obtain descriptive responses about that reality emancipatory; whereas the epistemology views 'realism' of the real world as a subjective interpretation and contingent to humans' experience. Besides that, the underlying 'theoretical position' on disclosure practices; namely agency theory, stakeholder theory and political economy theory has been discussed. In this study, the SIRC annual reports will be examined and incentives for such disclosure/non-disclosure investigated to address pragmatism position.



## **CHAPTER 5 A LITERATURE REVIEW**

### **Discharging Accountability through Reporting**

#### **5.1 Introduction**

This chapter reviews previous studies on accountability and corporate disclosure to identify gaps in existing literature. This missing data led to the research aims which include further details about the accountability framework examined in the previous chapter. The synthesis between the accountability framework and disclosure provides guidelines in terms of theoretical standpoint, research design and research hypotheses.

This chapter is divided as follows: Section 5.2 reviews previous studies on the disclosure of governmental entities and non-profit organisations (NPO), which are enlightened according to the respective themes of the literature being reviewed, namely: content, measurement, qualitative characteristics of disclosure and related disclosure studies in Malaysia. The last theme discusses Malaysian-related studies to differentiate this study from previous ones by providing identified missing data. Section 5.3 discusses the factors influencing the disclosure. Section 5.4 discusses the development of hypotheses. Section 5.5 concludes this chapter.

#### **5.2 Empirical disclosure studies on public sectors and NPO**

A review of several disclosure studies on public sectors can be sub-grouped into different levels including federal bodies (Bakar and Saleh, 2011a; Lee, 2008), statutory bodies (Odainkey and Simpson, 2013; Taylor, 2006), local authorities (Hooks *et al.*, 2012; Tooley *et al.*, 2010; Nooi, 2008; Goddard,

2005; Ryan *et al.*, 2002; Tayib *et al.*, 1999) and other public services like higher learning institutions (Ntim *et al.*, 2016; Ismail and Bakar, 2011; Nelson *et al.*, 2003; Coy *et al.*, 2001) and schools (Tooley and Hooks, 2010; Tooley and Guthrie, 2007). Not-for-profit organisations (NPO) like charities (Connolly and Hyndman, 2013; Dhanani and Connolly, 2012; Hyndman, 1990) and religious organisations (Yasmin *et al.*, 2014; Atan *et al.*, 2012) have also been reviewed. Those studies are relevant to this research because of the uniqueness of SIRC under review, which were established in the government purview to provide welfare in a religious setting.

These reviews show that local governments are the most investigated (Bakar and Saleh, 2011b). Laswad *et al.* (2005) explain that there is a clear relationship between the tax payers as financial contributors and the local authorities. Similar to fund-raising charities, another area of research is NPO studies based on a premise of financial incentives (Heijden, 2013; Atan *et al.*, 2012; Zainon *et al.*, 2011; Hyndman, 1990, 1991) while others are under-researched (Laswad *et al.*, 2005). Indeed, this study can contribute to the scarce literature on statutory bodies by examining the SIRC disclosure practices. Three disclosure issues are drawn from previous literature, namely: content, measurement and quality of disclosure.

### **5.2.1 Content of disclosure information**

Since the contents of public sector annual report are very often subject to the author's decision (Ryan *et al.*, 2002), some negative information about the reporting entity might be hidden (Flynn, 2012). Irrelevant and inaccessible information have impeded discharging accountability (Ismail

and Bakar, 2011). Consequently, a considerable number of studies have been carried out to examine the extent and quality of disclosure in the annual report (Yasmin *et al.*, 2014; Connolly and Hyndman, 2013; Zainon *et al.*, 2013; Dhanani and Connolly, 2012; Zainon *et al.*, 2011).

The key feature of disclosure for NPO such as public sector, charities and NGOs is to satisfy the stakeholders' needs (Dhanani and Connolly, 2012; Tooley *et al.*, 2010; Hyndman, 1990). Various stakeholders have an interest in information about governmental entities and NPO for the purpose of accountability discharge. Thus, identifying the stakeholders' needs is crucial. Freeman (1984) defines stakeholders as groups or individuals who can affect or are affected by the achievement of the organisation's objectives. Internal stakeholders can be identified easily since they have a direct relationship as a result of the corporation's activities. Identifying external stakeholders is not an easy task.

Brammer and Millington (2004) broadly identify three groups of stakeholders who may have a significant impact; i) legislative and political stakeholders; ii) community and consumers' stakeholders; iii) financial stakeholders. Likewise, in this study, numerous stakeholders of the SIRC have been determined (see Section 3.7.1). Despite the broad range of stakeholders, identification of content of disclosure information sought by them is often debatable and has been researched (e.g. Dhanani and Connolly, 2012; Abu Bakar and Saleh, 2011; Tooley *et al.*, 2010; Connolly and Hyndman, 2004; Hyndman, 1990).

Hyndman (1990) examined annual reports of the UK top 200 fund-raising charities through four routine means available (audited operating statement, audited balance sheet, list of officers and audited funds flow statement) and a Hyndman's (1990) *priori* information of ten items<sup>43</sup>. Hyndman used questionnaires to identify the most important information sought by the contributors. He found that although four types of traditional information are usually disclosed by the majority of charities, they are least needed by the contributors. This has prompted a study on disclosure information that meets the stakeholders' needs. The first phase in this study identifies this disclosure information needs.

Dhanani and Connolly (2012) examined accountability practices of large UK charities by analysing their content in the 2006 statutory annual report<sup>44</sup> and voluntarily annual reviews. Content analysis and referral to the Statement of Recommended Practice of Reporting (SORP) for charities was used to measure the extent (presence) and volume of disclosure (word count). An ethical model of stakeholder theory<sup>45</sup> was used to develop a framework for classifying accountability disclosure. The theme used for the disclosure items is presented in Table 5.1 below.

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<sup>43</sup>Hyndman's (1990) *priori* information includes a statement of goals, statement of objectives, problems/deficient area of information, measure of output, measure of efficiency, administration cost to total expenses, simplified operating statement, balance sheet, future objectives and budget information.

<sup>44</sup>Annual reports for the year 2006 were analysed in which the revised SORP 2005 was issued.

<sup>45</sup>The ethical model of stakeholder theory emphasises the rights of shareholders to be treated fairly by an organisation irrespective of whether they have direct impact on the organisations sustainability or they have no interest in the information provided by the organisation (O'Dwyer, 2002).

**Table 5.1: Accountability disclosure themes**

Strategic	Fiduciary	Financial	Procedural
• Aims and objectives	• Governance	• Financial position	• Ethical operational policies
• Charitable activities, programs and projects	- Organisational structure and decision making	Income, expenditure, surplus/deficits level, trading activities	Investment, trading, fundraising, advocacy, environmental
• Performance and achievement	• Risk management	• Performance of financial policies	• Staffs
Program outcome, efficiency, effectiveness	• Trustee recruitment policies	Investment, reserves	• Volunteers
	• Financial policies	• Efficiency	• Downward stakeholders
	Investment, reserves		

Source: Adopted from Dhanani and Connolly (2012, p. 1146)

From Table 5.1, there are fourteen (14) sub-themes under the four themes of accountability for charities, namely: strategic (3), fiduciary (4), financial (3) and procedural (4). Such well-defined items were used to examine the comprehensive annual report considering various stakeholders including policy makers, contributors, recipients or beneficiaries and society. Nevertheless, the authors found that their results contradict the ethical model of stakeholder theory. Charitable accountability practices are driven by a desire to legitimise activities which is more appropriate than the needs of stakeholders. However, this study is concerned with stakeholder theory not legitimacy (see Section 4.3.2).

Connolly and Hyndman (2004) used Hyndman's (1990) *priori* model of reporting and the SORP items to investigate Irish and British charities with small to large incomes as recorded by the Charities Aid Foundation (2001). They aimed to identify the type and extent of the reporting performance information outside the financial statements as well as analysing basic background and performance information<sup>46</sup>. Results showed relatively

<sup>46</sup> The background provides an indication of the governing instrument, constitution of charity, review of the year, feature of clear accounts, name of trustees and principal officers and its

lower levels of disclosure practices by Irish charities than British charities. They highlighted that good reporting practice through annual reports is essential to discharge accountability of the organisations.

Abu Bakar and Saleh (2011) reviewed Federal Statutory Bodies (FSB) in Malaysia to identify the level of disclosure. They developed an accountability disclosure index which underlies the accountability concept from different sources. This consists of i) related statutory requirements like the Malaysian Treasury Circular (MGTC) Number 4/2007<sup>47</sup>, Malaysian Code on Corporate Governance<sup>48</sup> and International Public Sector Accounting (IPSA)<sup>49</sup>; ii) a review of the annual reports of FSB; and iii) prior studies. Their accountability index is depicted in Table 5.2.

Table 5.2: Accountability disclosure index for statutory bodies

	Overview	Governance	Financial	Performance	Others
Statutory Bodies	Background of annual report	BOD governance	Audited financial statements	Key performance indicators	-Human resources
	Access information	Senior management governance	Accompanying certificate and statement	Customer/employee satisfaction	-Socio-environmental
	Background of statutory bodies	Audit committee	Analysis of financial performance	Overview of program/ activities/projects (PAP)	-Main assets
	Company objectives and philosophy	Financial management committee	Financial ratios	Performance of PAP	
	Corporate information	Internal audit			
	Chairman and CEO messages				
	Board of directors				
	Senior executives				

Source adopted from Abu Bakar and Saleh (2011, p. 36)

registered address; on the other hand performance information includes input, output, result, efficacy, effectiveness, future target and budget information.

<sup>47</sup> The Treasury Circular is a guideline of the preparation and presentation of both the annual report and one for all statutory bodies in Malaysia issued by Malaysian Administrative Modernisation and Management Planning Unit (MAMPU), (2004).

<sup>48</sup>The code is issued by Security Commission (2007) and applies to public listed companies.

<sup>49</sup>The standards were issued by International Federation of Accountants (IFAC).

Based on Table 5.2, the items were created under 24 subcategories in 5 accountability disclosure. These categories are: overview (8), governance (5), finance (4), performance (4) and others (3). FSB shows a moderate disclosure level in their reports, in which the financial category is the most disclosed, while the least disclosed is governance-related information. This finding is similar to Hyndman (1990).

Tooley *et al.* (2010) examined the type of information useful for evaluating the performance of local authorities in Malaysia using a questionnaire survey. This involved a broad range of distributed questionnaires comprising the internal and external respondents<sup>50</sup>. The selection of seventy-one potential disclosure items was drawn from an extensive literature review, statutory requirements<sup>51</sup> and annual reports in Malaysia and other countries such as New Zealand and Australia; opinions were taken from local specialists consisting of two public sector accountants, an auditor and two public sector researchers. The study underpins the public accountability framework<sup>52</sup>. They revealed that besides financial performance, stakeholders consider non-financial performance and future-oriented information are useful for performance evaluation. Such findings about the needs of non-financial performance support Hyndman (1990). Among the performance disclosure are output and outcome measures, customer satisfaction, impact measures, operating results, efficiency and effectiveness indicators. However, the performance measurement and

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<sup>50</sup> Internal stakeholders are management, employees and councilors whereas external people involve the public, state government and creditors stakeholders.

<sup>51</sup> The Malaysian statutory requirement, recommendation of Chartered Institute of Public Finance and Accountancy (CIPFA) as stipulated in the Code of Practice on Local Authority Accounting for Great Britain.

<sup>52</sup> Public accountability urges the citizenry right for information with regards to public services.

indicators are beyond the scope of this study, which concerns the examination of the disclosure on comprehensive annual reports.

While a considerable number of disclosure studies has been conducted to examine the content of disclosure, they used different bases of references, research strategies and several underlying theories. The findings of these studies are inconclusive about typical information disclosure. However, most of the disclosure items used are similar although they refer to different bases of disclosure and theories. For instance, Dhanani and Connolly (2012) highlighted the stakeholder theory whereas Abu Bakar and Saleh (2011) used the accountability framework. The former used categories of UK recommended practices and produced four themes of disclosure (see Table 5.1) whereas the latter chose its national circular of reporting and developed five themes (see Table 5.2). Similar features include aims and objectives, activities, program outcome, efficiency, financial position and staff information.

In this study, both recommended practices (SORP) and treasury circular (TC) are to be used in developing the disclosure index. The SORP is specifically for charities in the UK consistent with the functions of SIRC, while SIRC were also established in the purview of Malaysian government in a religious setting. Although TC is designed for statutory bodies in Malaysia, it applies to all governmental entities irrespective their functions. This implies that there are still many questions to show the best practice of reporting for SIRC. Yet, the integration between national and international reporting guidelines is pertinent for this study (see Appendix A, p. 334) and



other related bodies such as governments, NPO and religious-based organisations with apparently the best reporting practice.

### **5.2.2 Measurements of disclosure**

In general, there are two approaches to measure disclosure; content analysis and disclosure index. Both approaches have been widely used in disciplines such as literature, history, journalism, education, political sciences and other social sciences (Krippendorff, 2013; Neuman 2011; Beattie *et al.*, 2004; Weber, 1990). Krippendorff (2013) defines content analysis as a research technique for making replicable and valid inferences from texts to their contexts. This can be applied to 'form-oriented' and 'meaning-oriented', in which the former aims to identify the extent of disclosure whereas the latter analyses the underlying themes (Smith and Taffler, 2000).

Content analysis is commonly used in a specific type of disclosure such as social and environmental reporting (Ryan *et al.*, 2002). Meanwhile, Coy and Dixon (2004, p. 82) define the disclosure index as "numbers that encapsulate in single figures, objects in the set that one wants to measure and that are capable of measurement". The index focuses on the calculation of an index score, which indicates the extent of disclosure of certain predetermined items (Marston and Shrives, 1991). Most of the reviewed studies used the index to measure disclosure in the annual report.

The disclosure index can be unweighted, weighted or both which might be used in a single study. It is assumed that the unweighted items are equally important (Gandía and Archidona, 2008), so that several studies adopt a dichotomy to evaluate the extent of disclosure in annual reports. In contrast, it is assumed that some weighted items are viewed as more important than others. The weighted are assigned based on the level of importance (Coy and Dixon, 2004), quality criteria (Beest *et al.*, 2009), clarity, comprehensiveness and comprehensibility of disclosure<sup>53</sup> (Steccolini, 2004). Many studies use the disclosure index including those in various public entities such as local authorities, public departments, universities, schools and charities. Table 5.3 presents several disclosure studies on NPO and details of the disclosure index applications in the respective study.

Based on Table 5.3, the number of items varies in which the highest number suggested by Bakar and Saleh (2011) consists of a-hundred and fifteen (115) items whereas the lowest of fourteen (14) items was developed by Hyndman (1990). The unweighted index is the most adopted as compared to the weighted one, which Steccolini (2004) calls the simple index approach. There is however, no empirical advantage of a weighted index over an unweighted one. It has even been suggested that both approaches be used together in a study to see the effect of the weighting (Al-Razeen and Karbhari, 2004b; Ryan *et al.*, 2002; Marston and Shives,

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<sup>53</sup> The scores were awarded "0"=absent, "1"=poor, "2"=sufficient and "3"=very good.

1991). This is due to the subjectivity in assigning weighting since there is no consensus about weighting them.

**Table 5.3: List of studies on NPO using disclosure index**

Authors	Country	Sector	No. of items	Types of index	Basis of weighting	Purpose of index
Coy & Dixon (2004)	New Zealand	Universities	43	W	Importance	Extent and quality
Hook et al. (2012)	Malaysia	Local authorities	80	UW, W	Importance	Stakeholders' expectation
Ryan et al. (2002)	Australia	Local authorities	22	UW, W	Importance	Extent and quality
Herawaty & Hoque (2007)	Australia	Public agencies	67	UW	NA	Extent of disclosure
Ismail & Bakar (2011)	Malaysia	Universities	57	UW	NA	Extent
Zainon et al. (2012)	Malaysia	Charities	88	UW	NA	Extent
Tooley & Guthrie (2007)	New Zealand	Schools	24	UW, W	Quality criteria	Extent and informational value
Stecollini (2004)	Italy	Local	-	UW, W	Clarity, comprehensiveness, comprehensibility	Extent
Gordon et al. (2002)	US	University and College	75	UW, W	Importance	Extent of disclosure
Hooks et al. (2002)	New Zealand	Electricity	67	UW, W	Importance	Extent and quality
Coombs & Tayib (2000)	UK & Malaysia	Local authorities	-	UW	NA	Extent of disclosure
Bakar and Saleh (2011)	Malaysia	Public -federal	115	UW	NA	Extent
Hyndman (1990)	UK	Charities	14	W	Importance	Extent

Source: Author's own

Steenkamp and Northcott (2007) further argue that accounting in social sciences allows typical meanings and interpretations which may contribute to such subjectivity. This study attempts to use both the unweighted and weighted importance index. The importance of a weighted index which examines the extent of disclosure, is identified by the stakeholders in the questionnaire (see Section 6.4.2.1, p. 144).

It is acknowledged in the literature that most researched disclosure studies evaluate the extent of disclosure rather than disclosure quality. This is because of the subjectivity in assessing the quality of disclosure. However, it can be minimized by the identification of quality criteria, although such subjectivity cannot be completely removed (Marston and Shrives, 1991). Likewise, Beattie *et al.* (2004) also state that disclosure quality is a complex concept, multifaceted and subjective. In fact there is a lack of theory to support the construction of the index. There are a variety of approaches to measure disclosure quality.

According to Beattie *et al.* (2004), there are two categories of measuring disclosure, namely subjective ratings and a semi-objective approach. Subjective ratings apply to score rankings for quality of disclosure which involves subjective judgment and self-selection bias. Alternatively, the second approach of a self-constructed disclosure index is developed to measure the disclosure. This approach is explored in this study as Hassan *et al.* (2009) argue, demonstrating that the index used must be appropriate to the context of study. The disclosure index can be used to identify disclosure quality where it can be measured according to the degree of compliance (Tsalavoutas, 2011), detailed inclusion of sub-elements (Al-Razeen and Karbhari, 2004b) and importance (Chakroun and Hussainey, 2014; Coy and Dixon, 2004; Hooks, Coy, and Davey, 2002).

The present study is not intended to measure compliance level since the annual report preparation is not entirely mandatory. Rather, this study attempts to evaluate the extent of disclosure based on the degree of

importance from the perspectives of broad stakeholders. The disclosure quality was also measured based on fundamental and enhancing qualitative characteristics (see Chakroun and Hussainey, 2014).

### **5.2.3 Qualitative characteristics of disclosure**

Information disclosure is useful if it relevant and faithfully represents what it means to reflect on. It is more useful when it is enhanced with information for comparability, understandability and timeliness (IFRS, 2011). Relevance and faithful representation are two fundamental characteristics whereas enhancing characteristics are understandability, comparability and timeliness. Both IFRS and IPSAS<sup>54</sup> are related here to explicate the meaning of each qualitative characteristics as follows:

Relevance - the relevance of information is associated with its ability to assist users in evaluating, confirming, and correcting evaluation of events in the past, present or future. The relevant information can make a difference in the decisions of users, in particular if the information has predictive value (input to predict future outcomes), confirmatory value (feedback about previous evaluations - changes or confirmations) or both. Both predictive and confirmatory values are interrelated.

Faithful representation - information should faithfully represent transactions and other events according to their content and not just their legal form. The information is considered faithfully representative if it is

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<sup>54</sup> In Malaysia, it is known as MPSAS which is based on International Public Sector Accounting Standards (IPSAS) published by the International Federation of Accountants (IFAC).

complete, neutral and free from material error. It represents the resources, obligations, transactions and other circumstances of the reporting entity.

Understandability - for the disclosed information to be understandable, users are expected to have reasonable knowledge of the reporting entity's activities. This may convince them of their ability to comprehend the information. Any complex matters should also be included in the report because other users might easily understand the information. However, presentable information can enhance the understandability if it is categorised and characterised by a clear and concise presentation.

Comparability - the information allows users to identify similarities and differences provided in that report and others across entities and over time periods. However, users have to be informed about the policies used in the financial statements and reports, policy changes and their effects, and the preceding corresponding information. The report appears to be comparable if it helps users to look at the trends and performance of the reporting entity over certain periods.

Timeliness - information should be provided on a timely basis, otherwise it may lose relevance and be of little use to users in influencing their decisions, especially those who need to make decisions in the interim.

Timeliness has a quality attribute if the time taken to disclose the information is associated with the usefulness of decisions.

This study attempts to use the above five qualitative characteristics to measure the quality of disclosure similar to the previous studies such as Beest *et al.*, 2009; Chakroun and Hussainey, 2014. In Malaysia, there are no subjective ratings of the quality of the annual report unlike most developed countries. Therefore, adapting Beest *et al.*'s measurement to operationalise each qualitative characteristic (see Section 6.4.2.1) is pertinent due to the similar framework used. The following researched literature is specific to the Malaysian context.

#### **5.2.4 Related disclosure studies in Malaysia**

A review of previous studies showed that there are a growing number of public sector studies that focus on comprehensive reporting in developed countries. However, studies in developing countries such as Malaysia are still scarce (Bakar and Saleh, 2011c). Studies either specifically examined the financial information such as Tayib *et al.* (1999) and Combs and Tayib (2000) or comprehensive reporting of various levels of federal, and local government such as Mucciarone and Neilson, (2011), Nichol and Taylor (2001) and Hooks *et al.* (2012).

Tayib *et al.* (1999) limited their study to financial reporting of local authorities and the anticipated information from local authority taxpayers. They compared the type of statements presented in annual financial accounts with the Federal Treasury Circular 1/1998. Another comparison was made between the financial accounts and the expectations of taxpayers. The study concluded that there is a wide gap between taxpayers' expectations and reported information provided by the local

authorities. This indicates that identifying absent items and their details is essential to bridge that gap, consistent with rights of the stakeholders to information as set within a public accountability paradigm.

Combs and Tayib (2000) conducted a comparative study in which they evaluated disclosure in published annual financial reports and accounts of local authorities in the UK and Malaysia. They developed an index based on the Code of Practice for Local Authority Accounting in the UK issued by CIPFA, but applied the index to a sample of local authorities from the UK and Malaysia. It was found that local authorities in Malaysia had a lower level of compliance with the CIPFA compared to those in the UK. This was due to the low standard of detailed accounts as compared to the local authorities in the UK. As such, it appears that quality of reporting is open to debate and this study attempt to measure quality of disclosure.

Considering more comprehensive reporting rather than only financial aspects, Mucciarone and Neilson (2011) examined annual reports but only focused on the performance indicators of Malaysian government departments. They conducted interviews to investigate the reporting of service performance indicators in the annual accounts of the departments. It was inferred that a low level of disclosure of efficiency indicators are reported without effectiveness indicators.

On the other hand, Nichol and Taylor (2001) examined the annual public accounts of the Malaysian government, ministries and related governmental entities to identify performance reporting in terms of the nature, extent of disclosure and accountability-related information. They



carried out a content analysis<sup>55</sup> using the framework of Hyndman and Anderson (1995)<sup>56</sup>. It was found that the public sector performance reforms had no significant impact on the performance and accountability reporting in the Malaysian public sector.

Hooks *et al.* (2012) extended this line of study by developing a disclosure index for local government performance reporting. The performance items include financial performance, non-financial performance, and performance indicators while considering the expectations of the broad stakeholders via a questionnaire survey. While Nichol and Taylor (2001) examined the performance and accountability related information using a form-oriented content analysis, Hooks *et al.* (2012) used a self-developed disclosure index to identify the extent and the quality of disclosure.

The present study aims to extend the above studies by examining the extent and quality of annual report disclosure in the unique context of public service and religious setting. It begins with the identification of stakeholders' perceptions on accountability within SIRC and their expectations of what should be disclosed in the annual reports of SIRC. The explication of accountability of SIRC on 'to whom' and 'for what' is important, due to the absence of the bottom line of the public sector (see Section 2.3). As such, this could lead to types of information required by a wide range of stakeholders which is meaningful to the users.

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<sup>55</sup> They analysed based on the number of lines and pages of disclosure.

<sup>56</sup> The framework regards performance as the managerial accountability and the list of performance information however, was chosen by the authors; these are statement of objectives, inputs, outputs, results/outcomes, economy, efficiency and effectiveness. As for the accountability, the items are compliance, auditor's opinion, financial statements, internal control statement of sanction/rewards and accomplishments.

The primary aim of this study concerns information communicated to stakeholders through the comprehensive annual report. Such a notion is set within a public accountability framework and performance-oriented information as prescribed in the NPM and in line with Stewart's (1984) accountability dimensions. A 'sense accountability' dimension which acknowledges the value of belief and religion is also considered (see Section 2.2.3) as the SIRC were established in a religious setting. Finally, factors affecting their perceptions on the accountability of SIRC and the current reporting practices are investigated. The study also interests SIRC themselves, regulators and religious-based organisations.

#### ***5.2.4.1 Disclosure studies on SIRC***

A review of previous studies on SIRC was carried out to identify the area where a contribution to the SIRC context can be made. These are summarised in Table 5.4 below.

**Table 5.4: Summary of related studies on SIRC**

No.	Author/s	Research objective/s	Method/s	Findings
1	Siraj (2012)	to provide insights into the accounting, accountability and effectiveness of SIRC and the management of the <i>waqaf</i> practice.	Interview , quesionnaire, document review	Several conspicuous discrepancies in the financial reporting practices among the SIRC populations. The practice lacks accountability expected in public service entities.
2	Yaacob & Nahar (2011)	to investigate accounting, reporting and accountability practices of a Malaysian cash <i>waqaf</i>	Interview	Accountability does exist in the cash <i>waqaf</i> operations of the council studied. A significant improvement is needed to ensure continuous accountability.
3	Hisham (2006)	to investigate the <i>waqaf</i> accounting and administrative practice in the	Document review, interview, observation	No independent detailed information on <i>waqaf</i> in the financial statement.
4	Md. Zain (2005)	to analyse the level of <i>waqaf</i> disclosure	Document review, questionnaire	The SIRC's annual report was not prepared on a regular and punctual basis. There is a low level of disclosure in their annual report due to the absence of qualified accounting staff.
5	Abdul Rahman & Goddard (2003)	to explain accounting as a social practice and to develop an accounting explanation in religious organisations	Interview, document review	Several differences in accounting practices occurred between the organisations within which the studied organisations were located although they had in fact the same religious denomination.
6	Abdul Rahman <i>et al.</i> (1999)	to investigate the accounting system and the administrative style of a <i>waqaf</i> unit	Interview	There is a lack of an accounting system, no detailed information and unsystematic management of the <i>waqaf</i> assets.
7	Abdul Rahman & Goddard (1998)	to examine accounting practices	Interview, document review	Accounting practices in the SIRC demonstrate the existence of a power elite culture.

Based on Table 5.4, there have been a limited number of studies on the SIRC accounting practices, the majority not published in academic journals. These were conducted for post graduate research such as Ihsan and Adnan, 2010; Hisham, 2006; Md. Zain, 2005). This is not the case for other fields of research about SIRC like Islamic jurisprudence, law and management studies. Despite this limitation, there are useful findings, some of which are lack of accountability dimensions, no detailed information, absence of qualified accountants and lack of an accounting system which may

implicate the needs for improvement. This study attempts to discover these issues via interviews.

*Waqaf* reporting was mainly focussed highlighting the obvious gap in SIRC studies except of Abdul Rahman and Goddard (2003) and (1998). The focus of *waqaf* unit in most studies arises possibly because it is the oldest form of charity institution in Islamic history for socio-economy development of the society. Afifuddin and Siti-Nabiha (2010) claim that Islamic charity bodies today like religion boarding school and *zakat* centres are eventually reinvented from the Islamic history of *waqaf* institutions, which could explain the growing number of studies on *waqaf*.

Hence, the need in this research is for a comprehensive report of SIRC, not only for *waqaf*, which could be limiting. Notwithstanding that *zakat* contributes to more than 70% of the funds in the SIRC, it is practical to focus on the entire operation of the SIRC. Although Abdul Rahman and Goddard (2003, 1998) examined more than *waqaf* in their accounting practice, more than ten years ago they only dealt with two SIRC. Therefore, this research will include a number of SIRC and cover annual report evaluation over the recent six-year period, 2008-2013 inclusive.

Abdul Rahman and Goddard (1998) conducted a case study using grounded theory to examine accounting practices in a cultural setting of two SIRC; namely ASIRC and BSIRC<sup>57</sup>. They conducted semi-structured and unstructured interviews with the chief executives, senior management,

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<sup>57</sup>ASIRC has a power elite culture stemming from the Royal family whereas BSIRC was located in the commercial and modern life city.

accounting staff and religious officers as well as a document review including annual reports, financial statements, brochures and minutes of meetings. Both sources of data were used for comparison. It was found that accountants in BSIRC have more authority in financial decision-making and accounting activity was appreciated. In contrast, the authority of accountants and roles of accounting in ASIRC were restricted due to the dominant influence of power elite.

Previous research was further explored by Abdul Rahman and Goddard's (2003) who explained accounting as a social practice and to develop an accounting rationale. They inferred that although both organisations did not object to accounting practice, the practice was less developed in the organisations. Accounting practice was not rated highly. Interestingly, although both organisations were set up within the same religious denomination, their accounting practices differed due to discrepancies in power and other cultural influences according to their location. The aforementioned studies insights into the reasons, constraints of disclosure and non-disclosure of SIRC.

The previous studies did not examine annual report of SIRC using a disclosure index, perhaps due to the limited feasible annual report earlier than 2008. Only recently has the publication of annual report been demanding, especially in 2007 which marked the introduction of the Accountability Index (see Section 1.3). It is timely to examine SIRC annual reports to identify current reporting trends. Consequently, this study is the first to contribute to the disclosure study on the SIRC's comprehensive

reporting which might be of interest to religious-based, charities and public service organisations.

#### ***5.2.4.2 Gaps in related studies in Malaysia***

A number of gaps have been identified from the review on similar studies in a Malaysian context. The present study can fill these and enrich this line of research. Firstly, it focuses on the SIRC population but is subject to the availability to their annual report, because it is evaluating the extent and quality of annual report disclosure of SIRC using a self-developed disclosure index. This index is developed based on the identifying information expectations of the stakeholders about what should be disclosed in the SIRC annual reports.

Secondly, the present study focuses on both financial and non-financial aspects. Tooley *et al.* (2010) and Hooks *et al.* (2012) examined the entire information expectation of broad stakeholders as a disclosure index using a questionnaire survey. Similarly, this study begins with a questionnaire to identify information expected by the stakeholders (see Coy and Dixon, 2004). It also attempts to analyse the information needs of stakeholder groups based on the discussion in 'accountability to whom' (see Section 3.6.1) within a public accountability paradigm. The analysis of the questionnaire is discussed at length in Section 6.4.1.6.

Thirdly, Abu Bakar and Saleh (2011) found that only 11.4% of Malaysian public sector studies used archival method, among which content analysis and disclosure index have not been adopted due to the lack number of annual report (Md. Zain, 2005). This study suggests archival methods to

evaluate the extent and quality of SIRC annual reports. Furthermore, the annual report is viewed as a key document for public services to discharge their accountability. As several public sector reforms took place in Malaysia<sup>58</sup>, this has led SIRC to move towards transparency. This study supports the accountability mechanism through reporting.

Fourthly, regarding a disclosure checklist, unlike Hooks *et al.* (2012), who used Ryan *et al.* (2002) to develop a disclosure index for local authorities, the present study refers to national treasury circular, namely MGTC 4/2007. It also responds to a call by Hisham (2006) and Ihsan and Shahul (2007) to refer to the UK SORP. Another consideration is that SIRC are viewed as Islamic-based organisations, concerned with the *zakat* funds, and thus worth considering *zakat* efficiency apart from the performance measures (Wahab and Rahman, 2011; Sulaiman *et al.*, 2009) in developing the disclosure index.

Fifthly, the above studies are descriptive in nature and did not discover reasons or problems that influence such disclosure and non-disclosure, which might be of interest to the SIRC management and policy makers. As Bakar and Saleh (2011) suggest, such factors have been globally recognised to promote greater disclosure and resolve the lack of disclosure leading to a triangulation of data collection in study. This includes questionnaire, content analysis, regression and interviews. Such quantitative and qualitative approaches could ensure reliability and validity of the findings.

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<sup>58</sup> The reform includes the introduction of FMAI in 2007 and SIRC' resolutions in 2011

Despite evaluating the extent of disclosure like the majority of the previous studies, this study also examines the quality of the annual report and investigates the reasons for disclosure and non-disclosure of the SIRC annual report, thereby understanding the reporting constraints on improving their accountability which support evidence-based policy making. Regression analysis is used to examine the impact of financial specific characteristics of SIRC in association with disclosure.

Moreover, factors that influence such disclosure from the views of SIRC accountants, regulators and users: auditors and the public will be investigated, and specifically, reasons for disclosing and constraints that prevent non-disclosure. Importantly, the religious factor also is considered to identify disclosure items and whether it explains the disclosure practice. Therefore, this related Malaysian studies review justifies this study. The findings might be of interest to various stakeholders such as preparers, regulators and funders.

### **5.3 Factors that influence disclosure**

Numerous studies have been undertaken to identify the underlying motives of corporate disclosure. The disclosure practice is subject to the varying target audience and purpose of the report (Jetty and Beattie, 2008). In particular, identifying the stakeholders and their relationships with reporting entities (Connolly and Hyndman, 2004; Hyndman, 1990) is important to identifying their different interests. A review of previous studies showed that various interests are based on the political, economic or financial and social factors (see Section 2.3.2), institutional and



governance mechanisms (Bakar and Saleh, 2011b) also explain factors that influence the disclosure practice.

### **5.3.1 Political motives**

Disclosure in the public sector is heavily based on the application of the principal-agency relationship similar to that in the private sector which acts to reduce information asymmetry. As a result of information asymmetry in the principal-agency relationship, Sarker (2006) asserts that cases in developing countries such as corruption, abuse of authority, theft, deceive, patronage and favouritism exist in politics and public administration. Indeed, to reduce this information asymmetry, transparency in the public sector is essential. This may motivate political managers as agents to disclose information that allows the monitoring of their actions (Laswad *et al.*, 2005). The information is essential for showing accountability of the politicians and honouring their promise for re-election purposes.

Gandía and Archidona (2008) found that disclosure levels depend on political competition in Spanish city councils. The higher the political competition, the more likely they are to disclose. However, a study conducted by Laswad *et al.* (2005) on local authority in New Zealand failed to support such a consensus. This is similar to Evans and Patton's (1987) study conducted in the US. The agency theory eventually consistent with the public accountability paradigm which explains the direct relationship between funding and disclosure level (Bakar and Saleh, 2011a). However, the result is mixed since Ingram (1984) supports the prediction whereas

others failed to provide evidence (Bakar and Saleh, 2011a; Robbins and Austin, 1986).

### **5.3.2 Financial motives**

Another contributing factor is financial motivations for economic interest. In general, government entities and NPO depend on external and self-funding<sup>59</sup>. Fund-raising issue thus, is crucial to finance their operations. Higher disclosure is provided to signal that the reporting entities have managed their funds wisely, so that it might influence the contribution decision (Connolly and Hyndman, 2004). Atan *et al.* (2012) examined the disclosure level of the 2010 annual report of registered religions NPO (RNPO) in Malaysia. They found that the funded RNPO reported a higher level of disclosure than the non-funded RNPO. Likewise, this was proved by Arshad *et al.* (2013), who indicated that managers use the annual report to ensure a continuous flow of resources to their organisations.

Nevertheless, Parsons (2007) revealed inconsistent results about whether donors in the US use disclosure information for decisions about donations. As a result, Heijden (2013) found that the reports for small fund-raising charities are considerably better than for large fund-raising charities.

### **5.3.3 Social motives**

Social context includes trust, religion and organisational structure which affect disclosure. Yasmin *et al.* (2013) conducted interviews with trustees and preparers of annual reports in Muslim charity organisations in the UK.

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<sup>59</sup>External funding includes grants from the governments and contributions from various institutions and individuals. Self-funding on the other hand, generates funds by charging fees for services, membership fees, sales of assets and other generated income activities.

They found that donors absolutely trust Muslim charities based on the 'identity-based trustee' and 'knowledge-based trust' and has resulted in low disclosure. This trust of donors appears to override the need for accounting which is consequently neglected.

However, Jayasinghe and Soobaroyen (2009) assert that accounting may enhance the accountability mechanism in line with the religious spirit (Abdul-Rahman, 1999; Kluvers and Tippet, 2011). For instance, Abdul-Rahman (1999) found that religious organisations are prominent in accounting practice for accountability discharge. Not only religion but also other social contexts such as modernity status and location of regions, exert their influence. States with higher economic activities have better disclosure in comparison with rural and traditional regions.

Samkin and Schneider (2010) examined the importance of the annual report, in a different social context within the legitimacy paradigm. They performed a longitudinal single case study of the Department of Conservation (DOC) in New Zealand. They reviewed a Statement of Service Performance in the printed media from its establishment in 1987 to 30 June 2006 through the annual report. It was revealed that the annual report could play an important legitimising role. However, the extent of disclosure in the annual report was ignored.

Despite the importance of the annual report, disclosure that meets the needs of stakeholders is crucial. Zainon *et al.* (2012) examined institutional

donor<sup>60</sup> expectations and the information that charity management offers to understand the expectation of stakeholders. They performed telephone interviews<sup>61</sup> followed by email. It was found that financial and non-financial information is perceived as important by the institutional donors, but is not the charity's major concern. They have identified expectation gaps between the donors and the charity.

#### **5.3.4 Institutional motives**

Institutional motivations consist of three factors: namely size, accessibility and staffing profile which might explain such disclosure practice.

Firstly, the size of the reporting entity may explain the extent of disclosure as suggested in the agency theory. Large firms have a higher agency theory encouraging management to disclose more information to mitigate agency conflict. Further arguments are the economies of scale in relation to the cost of gathering, collecting and reporting (Laswad *et al.*, 2005), complexity and a high number of activities which may expect greater disclosure. Zainon *et al.* (2012) found that the size is highly significant and positively associated to the extent of disclosure of charities. Such notion also has been proven in Christensen and Mohr's (2003) study on museums in the US.

Secondly, accessibility is another factor that influences disclosure. With today's rapid ICT development, e-government is very well-established and the most effective channel of information for the annual report is on

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<sup>60</sup>Institutional donor is defined when it has contributed a minimum of RM10,000 donations.

<sup>61</sup>A total of ten interviews were carried out, divided equally between institutional donors and representative from charity management.

website. This offers attractive multimedia features acceptable by the public (Fisher et. al, 2004). There is less cost, wider readership and faster accessibility than traditional publication (Debreceeny *et al.*, 2002).

Ashbaugh *et al.* (1999) examined the usefulness of financial reporting on the website, complementary to the printed annual report. They found that internet reporting is the best communication channel because of its dynamic and unique features using web browser and hyperlinks<sup>62</sup>. Likewise, Styles and Tennyson (2007) proved that because of easier public access to the annual report, the disclosure level in the annual report would be higher. As a result, Mussari and Monfardini (2010) suggest that the internet may work in justifying the increasing use of reports by government.

Thirdly, staffing profile on the number of staff and their qualifications may explain the extent of disclosure. Nasir *et al.* (2009) interviewed representatives of charity organisations in Malaysia to investigate the problems faced in preparing financial reports. It was discovered that although all charity organisations submitted their balance sheets to the Registrar of Society (ROS), the degree of reporting practices vary. Only 60% of them presented a cash flow statement and 59% had their financial reports audited by external auditors. This was due to the lack of skilled accounting staff and high staff turnover.

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<sup>62</sup> Web browser for searching specific information rather than reading very extensive number of pages, hyperlinks, users may get further information being disclosed.

Consequently, Md. Zain (2005) highlights the needs to employ experienced accountants. This is supported by Heijden (2013), in which he found that accessibility to qualified accountants in large Dutch registered charities is more likely to result in higher quality of reporting than smaller charities. Smaller charities tend to suffer from misreporting and misclassifying due to less monitoring and the sophistication of accounting tasks.

### **5.3.5 Governance motives**

There are two forms of governance; external and internal, which encourage accountability and transparency. External governance includes accounting rules, requirements of reporting and the government regulations to encourage compliance. Internal governance refers to corporate governance mechanisms such as attributes of board of directors and audit committees in terms of size and composition. These are discussed next in some details.

#### **5.3.5.1 External**

External governance emphasises regulations which have been acknowledged in many studies. The absence of accounting guidelines and ineffective enforcement may influence disclosure (Dhanani and Connolly, 2012; Zainon *et al.* 2012; Ihsan and Adnan, 2010; Ibrahim, 2005; Hyndman, 1990). The governance may gain trust of stakeholders while and this can be best reflected in the reporting while effective regulation is eventually articulated for legitimization. This is to demonstrate the accountability of reporting entities which can be best reflected in external reporting.

Daniels *et al.* (2010) examined the accounting and financial reporting of orphanage in America. It was found that the orphanage recorded the reporting of expenditure and source of funds. They inferred that external reporting may have been legitimising factors to overcome the liability of newness. A sense of propriety and transparency were promoted among the stakeholders, especially contributors. Yet, the study suggests that the effectiveness of regulation is still a significant issue in assuring compliance. This view is consistent with a study in Italy which was conducted by Mussari and Monfardini (2010), who revealed that regulation is essential as a mechanism to regulate social disclosure practice in Italy. The disclosure practice demonstrates a process of convergence towards a partially regulated framework which requires standards and guidelines.

Miller (1997) is regarded as a pioneer with his study on accounting for charitable organisations in Hong Kong, where he was concerned about public accountability of fund-raised charities. He found that the absence of specific regulations for charitable organisations, led to low credibility of charity bodies. There was a poor level of disclosure highlighted also by Cordery and Zajkowski (2005). Nevertheless, they argue that there is a growing concern for greater transparency and accountability in increasing funds. The charities are to report their financial affairs accurately and comprehensively using the new voluntary reference guide based on generally accepted accounting principles.

In Malaysia, Ali *et al.* (2012) examined financial reporting disclosure of charities in 2010 registered with the Companies Commission of Malaysia (CCM). They found that despite complete submission of the three items; namely: Statement of Income and Expenditure, Balance Sheet and Cash Flow Statement as required by the CCM, their level of disclosure are distinct. The study supports the timely submission for the compliance irrespective of the quality of disclosure.

In a similar study conducted in the same country, Ishak (2012) investigated the practices of the accounting record of a few orphanages in the district of Selangor. A survey was conducted with selected management of orphanages using a convenient sampling technique. It was revealed that the orphanage management has maintained their book keeping which comprises a simple list of income and expenses. Both studies showed that as following less enforcement by regulators like ROS and CCM, the information for the effective monitoring of the NPO was misleading.

Consequently, it is suggested that reporting standards for the NPO require improvement to increase usefulness (Abdul Rahman and Goddard, 1998), to allow accurate judgement on donation decision-making (Zainon *et al.*, 2012; Jetty and Beattie, 2008) and a higher level of custodianship of the entrusted resources (Ihsan and Adnan, 2007). For instance, Md. Zain (2005) inferred that the low disclosure in SIRC was due to the lack of guidelines.

Consequently, Ibrahim and Yaya (2005) suggest the code of good corporate governance and development of reporting standards for Islamic organisations. They claimed that this could improve the accountability



discharge in managing and administering designated funds. Similarly, Ihsan and Shahul (2007) advocated learning the existing similar standard similar to SORP for charity bodies since it was well-defined. They inferred that developing the accounting standards for SIRC based on a modified SORP to be consistent with *Shariah*, would be beneficial to SIRC in preparing their annual reports.

#### **5.3.5.2 Internal**

On the issue of internal governance, previous studies have shown board size, composition and performance can explain the extent of disclosure. Goddard (2005) analysed the association between governance, accountability and accounting in the UK local government. He investigated the accountability concept from the participants' viewpoints using grounded theory<sup>63</sup>. The study concluded that there is a relative importance of accountability over governance through budgeting. This view is perceived as related for the conformance. The local government budgeting ensure robust accountability while the governance aspect has not been recognised. He found that governance aspects had been neglected because the organisations merely focused on conformance. This study indicates the needs of improving corporate governance mechanisms such as board size, composition and audit committee attributes in non-profit based organisations.

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<sup>63</sup> Strauss and Corbin's (1990 and 1998) grounded theory procedures in which open coding of interview, document and observational data was collected and analysed.

Much of the literature on the public sector and NPO emphasise the significance of the size of the board of trustee (Alonso *et al.*, 2006; Zainon *et al.*, 2012) and the board composition (Zainon *et al.*, 2012) whereas audit committee characteristic consists of the presence of internal (Cohen *et al.*, 2007) or external audit committees (Zainon *et al.*, 2012; Cohen *et al.*, 2007). A study carried out in Spain by Alonso *et al.* (2006) supported the positive association between board size and the disclosure level. This view is consistent with the board's ultimate duty to approve financial reports.

Although it was expected that a larger board size is important to increase either fund-raising or performance, Alonso *et al.* (2006) and Callen *et al.* (2003) failed to prove such association. Similarly, Gordon (2002) also found conflicting evidence pertaining to both board size and the level of disclosure, and board size and performance. Other attributes like age of board members, board size and board composition are insignificant to the disclosure level (Zainon *et al.* 2012). Overall, Gray (2001) cautions several accounting aspects should be emphasised such as lessons from current experience, accountability, sustainability and tension between accountability and control. Consequently, clarity of objectives, systematic approach, completeness and integrity reporting may be assured.

#### **5.4 Hypotheses development**

As the second research objective of this study aims to identify determinants of disclosure using regression analysis, the development of hypotheses is essential. Many disclosure studies examine the impact of financial motivation on the extent of disclosure in companies (e.g. Aly *et*

*al.*, 2010; Ghazali and Weetman, 2006; Brammer and Pavelin, 2004; Haniffa and Cooke, 2002; Wallace *et al.*, 1994) but a relative lack of studies about non-profit organisations such as local government, higher education institutions, charities, religious and other government agencies (e.g. Arshad *et al.*, 2013; Bakar and Saleh, 2011a; Marcuccio and Steccolini, 2009; Ryan *et al.*, 2002). As Broadbent and Guthrie (2008) state, there is less focus on the financial positions in public sector studies but this has progressed over time. The present study could fill the gap by contributing to such limited literature.

As part of the second defined aims of this research, this study aims to examine financial characteristics and whether they have any significant impact on the extent and quality of disclosure. The research hypotheses developed for this study are based on the following characteristics: size, liquidity, leverage, efficiency and surplus. These five characteristics have sub-hypotheses to different types of disclosure, namely: a) annual report, b) non-financial and c) financial statements. Each hypothesis has three sub-hypotheses, designated as: a, b and c. Three control variables included are: state-ownership, locality and accessibility.

#### **5.4.1 Size/wealth**

Previous studies argued that large organisations are more likely to disclose more information. Gandía and Archidona (2008) stated that wealthy organisations have incentives to increase information disclosure to show their quality of management, which benefits politicians. They may have a promising opportunity for re-election. Similarly, Laswad *et al.* (2005)

*al.*, 2010; Ghazali and Weetman, 2006; Brammer and Pavelin, 2004; Haniffa and Cooke, 2002; Wallace *et al.*, 1994) but a relative lack of studies about non-profit organisations such as local government, higher education institutions, charities, religious and other government agencies (e.g. Arshad *et al.*, 2013; Bakar and Saleh, 2011a; Marcuccio and Steccolini, 2009; Ryan *et al.*, 2002). As Broadbent and Guthrie (2008) state, there is less focus on the financial positions in public sector studies but this has progressed over time. The present study could fill the gap by contributing to such limited literature.

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highlight the concern about political competition through disclosure. A significant and positive association was found in numerous studies such as Wallace *et al.*(1994), Hussainey *et al.* (2011) and Laswad *et al.* (2005). Therefore, from agency theory and political-economic theory, large organisations are more likely to provide more information to report their operations. However, Miniaoui and Oyelere (2013), Atan *et al.* (2012) and Aly *et al.* (2010) found no such association.

Size can be measured using total assets and total sales (Hussainey and Al-Najjar, 2011; Aly *et al.*, 2010 and Wallace *et al.*, 1994). In this study, as the main role of SIRC is on *zakat* rather than sales, size is measured by total *zakat* collection. As the majority of studies have shown, size is significant and positively associated with the extent and quality of disclosure, as this study's hypotheses lists:

H1(a): Annual report disclosure is positively associated with size.

H1(b): Non-financial disclosure is positively associated with size.

H1(c): Financial statements disclosure is positively associated with size.

#### **5.4.2 Liquidity**

It has been argued that high liquidity organisations have higher agency costs, and thus are more likely to disclose more information to reduce such costs. They do this by showing their ability to pay current debt without liquidating other assets to satisfy stakeholders at large, consistent with agency and stakeholder theory. Several studies have examined the impact of liquidity on the extent of disclosure. However, the results are inconsistent. For instance, Wallace *et al.*(1994) found significant negative

association, Arshad *et al.* (2013) and Owusu-ansah and Yeoh (2005) found positive association, whereas Aly *et al.*(2010) and Miniaoui and Oyelere (2013) did not find any association. Liquidity is measured by a ratio of current assets to current liability. Based on these discussions, consistent with agency and stakeholder theory, this study hypothesises that:

H2(a): Annual report disclosure is positively associated with liquidity

H2(b): Non-financial disclosure is positively associated with liquidity

H2(c): Financial statements disclosure is positively associated with liquidity

### **5.4.3 Leverage**

Reliance on debt is an important aspect of examining the financial position of an organisation but it appears to be a little tested variable in terms of being used to explain disclosure in government, unlike studies about companies. From the perspective of agency theory, highly leveraged organisations are more likely to disclose more information due to the increase of agency cost. Indeed, more information disclosed can reduce the agency cost (Debreceeny *et al.*, 2002) while showing an ability to pay debt in a timely manner, in particular to creditors.

Several empirical studies have been conducted examining the association between leverage and information disclosure: the results are mixed. Laswad *et al.* (2005) found significant and positive association between leverage and disclosure whereas a negative association was found by Chiu and Wang (2015). Regarding another aspect, Lampkin and Raghavan (2008) proved that highly leveraged faith-based organisations negatively influenced government funding. Aly *et al.* (2010), Jaffaret *et al.*(2007) and

Debreceeny *et al.*(2002) found no significant association. Leverage is measured by a ratio of debt to total assets. Based on the findings above, this study hypothesises that:

H3(a): Annual report disclosure is negatively associated with leverage

H3(b): Non-financial disclosure is negatively associated with leverage

H3(c): Financial statements disclosure is negatively associated with leverage

#### **5.4.4 Efficiency**

Efficiency of distribution is the main concern of the public, rather than the contribution funds generated (Wahab and Rahman, 2011; Connolly and Hyndman, 2013), which shows the accountability to the public under the umbrella of public accountability, supporting stakeholder theory. The importance of efficiency has been found to be related to accountability discharge and funding decisions (Brammer and Millington, 2004; Heijden, 2013; Zainonet *al.*, 2011). Both agency and stakeholder theory are pertinent in showing the accountability of the agent to the public.

Previous studies have been conducted using efficiency measures in relation to performance reporting and governance (Atanet *al.*, 2013; Connolly and Hyndman, 2003; Dhanani and Connolly, 2012; Heijden, 2013; Zainon *et al.*, 2011 and Callenet *al.*, 2003). Nevertheless, to the best knowledge of the author, none have examined the impact of efficiency on the extent of disclosure. With regards to efficiency measurement, Connolly and Hyndman (2004) used a ratio of administration costs to total costs, Heijden (2013) used fundraising ratio expenses over collected funds whereas

Sulaiman *et al.*, (2009) used ratios of program expenses to total expenses, investment income to average investment and fundraising expenses to total related contributions. A ratio of fundraising expenses to total expenses, and administrative expenses to total expenses were used in Callen *et al.* (2003). As such, the basis of measuring efficiency is a ratio of expenses to total related expenses.

Despite the difficulty in measuring efficiency, and its sensitivity to, more meaningful information from the audited financial statement can be obtained by knowledgeable users (Connolly and Hyndman, 2013). Consistent with previous studies, efficiency is measured by a percentage of distribution funds to total generated income. Specifically, in this study the funds refer to *zakat* only because the main role of SIRC is derived from the *zakat* collection. This study hypothesises that:

H4(a): Annual report disclosure is positively associated with efficiency

H4(b): Non-financial disclosure is positively associated with efficiency

H4(c): Financial statement disclosure is positively associated with efficiency

#### **5.4.5 Surplus**

According to agency theory, a profitable organisation has a greater likelihood of disclosing more information to show their accountability to the public because the government is accountable to the public (Ghazali and Weetman, 2006). In the context of government, it refers to a surplus of entrusted funds which can benefit the citizen. On the other hand, it has been argued that less information is pertinent (Naser and Nuseibeh, 2003) probably due to the guarantee of reliance on government funding. Political



connection is another contributing factor to such funding, as posited by Ghazali and Weetman (2006), although Mucciarone and Neilson (2011) found no such association. A significant and positive association was found between profitability and the extent of disclosure by Aly *et al.* (2010), Hussainey *et al.* (2011) and Haniffa and Cooke (2002) whereas negative association was discovered by Jaffar *et al.* (2007) and Hussainey and Al-Najjar (2011). However, Wallace *et al.* (1994) and Miniaoui and Oyelere (2013) found that profitability was not a significant in explaining disclosure.

This study uses a dummy variable of 1 if a surplus is earned, or otherwise zero, as a proxy of profitability. Consistent with the agency theory perspective within the banner of public accountability as argued above, this study hypothesises that:

H5(a): Annual report disclosure is positively associated with surplus

H5(b): Non-financial disclosure is positively associated with surplus

H5(c): Financial statement disclosure is positively associated with surplus

#### **5.4.6 Control variables**

Three factors, namely: state ownership, locality and accessibility, have been found in previous studies which influence disclosure practices. For instance, Abdul-Rahman and Goddard (1998a) found that locality and state ownership influenced SIRC's disclosure. Coy and Dixon (2004) stated that accessibility is another contributing factor to the extent of disclosure but it was less tested (Bakar and Saleh, 2011a). Therefore, this study adopted these three factors as control variables.

#### **5.4.6.1 State ownership**

State-ownership is political since the government has power to appoint the CEO and even board members. The appointed civil managers are held accountable to government interests, especially the public domain since political leaders of the government office are very concerned about their voting support. In the presence of government ownership, they are monitored by the public and are exposed to public criticism. Gandía and Archidona(2008)found that political competition positively influenced the extent of disclosure which is consistent with political-economy and stakeholder theory. However, inconclusive results were observed in previous studies on the influence of government ownership and the extent of disclosure. Amran and Susela Devi (2008) found a significant positive association whereas a negative association was identified by Bushman *et al.* (2004)who argued that less disclosure protected politicians and their cronies. However, political connection and cronyism was not proven in Ghazali and Weetman (2006).

In this study, state ownership is measured by the SIRC's governing body, either the government or opposition party. A dummy variable is used; one if the SIRC is controlled by the government party, otherwise zero. This study conjectures that the extent and quality of disclosure is positively associated with state ownership.

#### **5.4.6.2 Locality**

Bakar and Saleh (2011b) stated that location can explain the social incentive for disclosure in government. Abdul-Rahman and Goddard

(1998a) found that the location of SIRC influenced their accounting practices. Those SIRC located in the city is more influenced by managerialist values with more power in financial decision-making. In contrast, another type of SIRC is characterised as a cultural power elite originating from the Royal family, have limited authority in decision-making. Such differences would indeed influence accounting disclosure practices. Mahamod (2011) found that locality has been proven to determine *zakat* collection, while the amount of distribution heavily depends on the *zakat* collection in which the SIRC is placed. Matsunaga *et al.* (2010) suggest that locality is related to size of NPO. Therefore, this study predicts that the extent and quality of disclosure will be associated with the locality of the SIRC.

#### **5.4.6.3 Accessibility**

Accessibility plays an important role in informing the public about the daily operations and activities of government entities. As Coy and Dixon (2004) suggest, internet availability is the easiest way to proxy accessibility. Styles and Tennyson (2007) and Bakar and Saleh (2011a) found a significant positive association of disclosure with accessibility. This indicates that the easier it is for the public to get access the annual reports, the higher the incentive to disclose more information in annual reports. This is consistent with stakeholder theory from the public accountability perspective. The public expects that an organisation is transparent and committed to publish information in their annual report. Grosso and Van Ryzin

(2012)proved that disclosure is positively associated with the existence of web-reporting.

In this study, two measures are used for proxy accessibility. Firstly, the existence of annual report on the SIRC's websites and secondly, availability of the annual report in SIRC to the public on request. Based on the above arguments, this study anticipates that the extent and quality of disclosure is positively associated with accessibility of disclosure.

In general, the current research hypotheses were developed according to identified theoretical perspectives, previous empirical evidence and related factors concerning charities, NPO and public sector in general and in a Malaysian context, in particular SIRC. The measurements of each independent variable for this study are summarised in Table 5.5.

Table 5.5: Measurement of independent variables in the regression model

Variables	Measurements
Size	Total <i>zakat</i> collection (log)
Liquidity	Current assets/ Current liability
Leverage	Debt/Total assets
Efficiency	Distribution of <i>zakat</i> funds/ Collection of <i>zakat</i>
Profitability	Dummy variable

In sum, several conclusions can be drawn from the review. Firstly, to the knowledge of the author, there are no recent studies on the SIRC that focus on comprehensive reporting, whereas the time-frame for this research to examine annual reports is from 2008 to 2013. Earlier in 1998, Abdul Rahman and Goddard's (1998) study performed a case study by interviewing two SIRC to examine the basis of reporting practices. In 2003, they extended it to look at the impact of cultural setting on the accounting practice but current practice of reporting has been ignored.

Secondly, this study aims to identify the perspectives of stakeholders on accountability in relation to SIRC and their expectations of information to develop a self-constructed index evaluating whether the current reporting practices meet the stakeholders' needs. The disclosure items and their importance are identified using a questionnaire survey like Coy and Dixon (2004), to develop the disclosure index. Coy and Dixon (2004) used the index developed in Coy *et al.* (1997) Modified Accountability Disclosure (MAD)<sup>64</sup>. However, the basis of disclosure items in this questionnaire referred to national and international regulations (see Appendix A) to better reflect the roles of SIRC in welfare within the purview of Malaysian government.

Thirdly, despite the relevance of studies on public sector disclosure, Islamic reporting cannot be ignored since SIRC understudied were established in the Islamic setting. In addition to reporting on performance-oriented emphasise as prescribed in public accountability framework, this study may address the gaps in the public sector and religious based-organisations. Although disclosure studies on local authority are pertinent, the absence of 'value' reflecting the Islamic element might be raised.

Fourthly, the factors of disclosure for public sector are under researched, particularly in Malaysia since most of the studies have been conducted in developed countries and these are mainly conceptualised with few empirical studies. Conducting both qualitative and quantitative methods to

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<sup>64</sup>MAD referred to university's regulation and other related performance indicators and previous studies mostly in education. MAD also is widely used in disclosure studies on universities, schools and local government.

assure robust findings is considered acceptable to provide lacking information.

Fifthly, the financial incentive determinants are also under-researched in the context of comprehensive annual reports, involving both mandatory financial statements and voluntary non-financial disclosure for external reporting. Although there is growing research on mandatory and voluntary disclosure in developing countries, the combination of both is scarce. Also, Malaysian context studies are still being reviewed especially in the public sector.

Therefore, based on factors identified in Section 5.3, these are: political, financial, social and institutional motivations<sup>65</sup>, the impact of those factors in association with disclosure will be explored.

## **5.5 Chapter Summary**

This chapter has reviewed relevant studies on governmental entities, various NPO, religious organisations and charities. This is essential to identify and fill gaps not just concerning Malaysia but also international literature. The present research purports to readdress the lack of literature on the information disclosure specifically for SIRC through external reporting of comprehensive annual report. However, this might be of interest to public sector organisations, NPO, charities and faith-based organisations. In particular, this is most relevant to the accountability discharge within the purview of public accountability.

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<sup>65</sup> A factor of governance incentive is excluded in this study due to the limited of available data. See Section 6.4.2.4 for the details.

## CHAPTER 6 RESEARCH METHODOLOGY AND METHODS

### 6.1 Introduction

Research methodology involves a process of collecting data, describing, explaining and predicting phenomena. The underlying choice of methods is based on the research paradigm of a study (Creswell, 2013). This includes the researchers' understanding on how they view reality (ontology) and how the knowledge is acquired (epistemology) which decides whether the approach is quantitative, qualitative or mixed.

Many accounting studies use a quantitative approach but recently, there has been a greater focus on qualitative research as well (Yasmin, 2014), so called mixed methods (Siraj and Karbhari, 2014; Dunne, 2013; Yasmin *et al.*, 2013; Crawford *et al.*, 2009). There is a need for an in-depth explanation of accounting practices and the limited amount of data available in some contexts deters the use of only a quantitative approach. In this case, positivism and interpretivism elements are adopted within pragmatism, which does not prohibit one approach or the other. Neither approach is preferable but subject to the researcher's decision.

This chapter discusses the chosen research methodology, methods and rationale. Section 6.2 explains the research design highlighting research purposes and approaches. Section 6.3 introduces the research methodologies consisting of quantitative, qualitative and a combination of both. The research strategies are discussed subsequently in Section 6.4, namely: a questionnaire survey, regression and interviews. Section 6.5 discusses the ethical issues and Section 6.6 concludes the present chapter.

## 6.2 Research design

The research design describes the methods that underpin the data collection and analysis. As Leedy and Ormrod (2010, p. 85) state:

*“Research design is a planning of research which provides the overall structure for the procedures the researcher follows, the data the researcher collects and the data analyses the researcher conducts”.*

This begins with the identification of the research problem to produce the findings (Punch, 2005). The nature, research interest content and available resources can influence the methodological choice (Gill and Johnson, 2002). The research design, which covers research purposes and approaches, is discussed next.

### 6.2.1 Research purposes

There are three purposes of a social research; these are exploratory, descriptive and explanatory (Saunders *et al.*, 2012). Exploratory research aims to explore new insights by investigating an occurrence (Robson, 2002). Descriptive research seeks to infer an accurate profile of events, situations and people as a basis to provide an immense body of knowledge to shape the nature of society. Explanatory research is regarded as being explanatory to a situation in a causal relationship between explanatory variables (Saunders *et al.*, 2012). Robson (2002) posits that a good description study promotes the conduct of exploratory research, given the description should be on a sound basis.

This study has all three purposes. The descriptive purpose aims to identify the perspectives of stakeholders concerning accountability within SIRC, stakeholders' information expectations and reporting practices. The



explanatory refers to the association of disclosure practices with SIRC financial characteristics. The exploratory is an investigation of the basis of such information choice, disclosure/non-disclosure and the reasons for non-mandatory annual reports.

### **6.2.2 Research approaches**

According to Creswell (2014), the validity of social research depends on the approach i.e. the relationship between theory and data. There are three research approaches; deductive, inductive and abductive<sup>66</sup>, which stand respectively within the positivism, interpretative and pragmatism stance of epistemological position.

As this study adopts pragmatism, an abductive approach is pertinent. It draws on the relevance of both quantitative and qualitative data. The choice of the abductive approach is consistent with the ontological position that has emerged in this study. It is believed to be the most appropriate method for understanding the perspectives of the stakeholders concerning accountability within SIRC through reporting. Perceptions of important information are determined and disclosure practices are evaluated against the expected information. Using the abductive approach, this study attempts to locate the phenomena of the information expectations of the SIRC stakeholders using accountability concepts and disclosure theories. Although the major constructs of this study have been generated from

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<sup>66</sup> Deductive approach begins with theory or a general idea on a specific phenomenon and the phenomena is deduced from the identified theory, it is a theory driven (Saunders *et al.*,2012). In contrast, inductive approach starts with phenomena from which theory emerges and is known as data driven (Saunders *et al.*,2012). A combination of both approaches is an abductive approach which begins with the phenomena and then locates these in a plausible theory, it moves back and forth between the deductive and inductive approach (Saunders *et al.*,2012).

well-established literature, application of these constructs in the SIRC study setting may contribute to theory development, either through theory building or modification, depending on the findings (Saunders *et al.*, 2012).

### **6.3 Research methodologies**

There are two types of research methodologies; quantitative and qualitative research in which the former is objective whereas the latter is subjective in nature. The quantitative approach focuses on the collection and analysis of numerical data using statistical tools to measure phenomena. In contrast, the qualitative approach is concerned with non-numerical data, such as words, video clips and images for data categorising with other analysis, to generate non-numerical findings for an in-depth understanding considering human perceptions (Collis and Hussey, 2009).

However, both approaches can be combined within the appropriate research paradigm in a single study (Denzin and Lincoln, 2000). No approach should be deemed more effective because of other factors such as the nature of phenomena and data feasibility. Researchers should choose their methodological position wisely, quantitative, qualitative or both.

#### **6.3.1 Quantitative research**

Quantitative research is related to positivism and relies on a deductive approach which uses data to test theory in structured data collection techniques (Saunders *et al.*, 2012). Denzin and Lincoln (2000) concede that it concentrates on the measurement and analysis of the causal relationship between variables using standardized measures, by assigning numbers to

fit the numerous perspectives of people into limited predetermined response classifications. Often, probability sampling techniques are used to make generalisations and the researcher is considered independent from those being researched. This approach includes a questionnaire, structured interviews and structured observations.

### **6.3.2 Qualitative research**

Qualitative research is employed within an 'interpretivism' paradigm to make sense of socially constructed meanings about the phenomena being studied, using an inductive approach to generate theory. This involves an interpretive and naturalistic approach to the world in which the researcher is located in the phenomena (Denzin and Lincoln, 2000). It is the most effective approach to gain an in-depth understanding of the phenomena in its natural context. The research strategies include interviews, case study, action research, ethnography, grounded theory and narrative research.

### **6.3.3 Combination of quantitative and qualitative research**

A combination of research methodology has become increasingly common nowadays which is a synonym for triangulation (Sarantakos, 2005), in fact Denzin and Lincoln (2000) concede that it can be used appropriately with any research paradigm. The triangulation<sup>67</sup> use in the same research is helpful to best understand the research problem and could enrich the

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<sup>67</sup>Collis and Hussey (2009) explain four types of triangulation; i) data triangulation - obtaining data from varying sources at different point of time; ii) theory triangulation - applying multiple theories within a single study; iii) investigator triangulation - collecting data by a number of independent researchers on the same inquiry in a study and then, comparing their findings to minimise bias; iv) methodological triangulation - involving within-method and between-method triangulation in data collection.

quality of the collected data through validity and reliability (Creswell and Clark, 2007).

This study adopts pragmatism embodying triangulation, which explicates a 'methodological position', clarifying biases and exclusions (Laughlin, 1997). The triangulation here is used in several ways. First, data triangulation is dealt with through combinations of survey and interviews from different stakeholders' views. Second, theory triangulation uses multiple theories<sup>68</sup> to explain disclosure practices. Third, investigator triangulation is employed to test the disclosure index in evaluating the annual reports. Fourth, methodological triangulation relates to both within-method and between-method; within-methods of quantitative are survey, disclosure index and regression, whereas between-methods include a quantitative and qualitative approach.

#### **6.4 Research strategies**

This study intends to integrate the broad stakeholders' perspectives on disclosure practices with Islamic influence in the public sector setting within the accountability paradigm. It focuses on the information expectations of stakeholders with regard to the SIRC annual reports due to the high demands of the stakeholders (Siraj, 2012).

This study uses a disclosure index to examine the SIRC's annual reports. To the best knowledge of the researcher, no previous study has examined annual reports of SIRC using such an index, probably due to the limited availability of such reports. For instance, Md. Daud (2005) who conducted

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<sup>68</sup> The theories are agency theory, stakeholder theory and political economy theory.

her study in 2004, nevertheless found that the majority of the SIRC reports were only available from 2000 to 2001 while others were between 1994 and 1997. Only in recent years has the publication of annual reports been more strongly demanded, especially since 2007 which marked the introduction of the accountability index<sup>69</sup>(Bakar and Ismail, 2011). Therefore, this study is timely and developmental.

This study has three stages of data collection. Firstly, a questionnaire survey is carried out which begins with a survey to elicit participants' opinions on the accountability perspectives and expectations of information disclosure in the SIRC's annual reports. Secondly, the SIRC's annual reports are examined against the developed disclosure index generated from the survey to examine the extent and quality of their reports. Thirdly, interviews are undertaken to discover how information disclosure is determined. This is to enhance in-depth findings on the disclosure practices, in particular, reasons for disclosing/non-disclosing, failure to publish an annual report and why such reports are not mandatory. Both quantitative and qualitative methods are employed in this study, an approach known as mixed methods, namely sequential mixed methods. Each method is discussed next.

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<sup>69</sup> FMAI (Financial Management Accountability Index) is a star rating system in which it is an objective tool to measure financial management performance and accountability. The total score and levels of ratings are based on a percentage as follows: 90-100, 70-89, 50-69 and 49 and below to indicate excellent, good, satisfactory and not satisfactory respectively.

#### 6.4.1 Questionnaire survey

The first stage of this study employs a questionnaire survey to achieve the first research objective: to identify the perceptions of stakeholders concerning accountability within SIRC (see Table 1.1). Goddard (2010) states that perception studies are often associated with questionnaires (Zainon *et al.*, 2011; Tooley *et al.*, 2010; Al-Razeen and Karbhari, 2004), identifying the disclosure items that stakeholders require from annual reports and indicating the relative importance of each item. As the informational characteristics change as a result of conflicting expectations (Norman and Gregory, 2003), surveys can be used to consider varying users' expectations on accountability within SIRC and validate potential disclosure items before they are applied to evaluate annual reports. This section presents the rationale for the survey and how it was adopted.

Data was collected online via a structured and standardised questionnaire in Google docs. This study is a response to the call by Zainon *et al.* (2011) for online surveys with wider scopes of responses that are more cost effective (see Connolly and Hyndman, 2013), allowing a wide range of potential participants, yet also saving time to collect data while working on other tasks. Moreover, there has previously been limited use of online surveys in disclosure studies (e.g. Connolly and Hyndman, 2013; Zainon *et al.*, 2011; Gassen and Schwedler, 2010) which offers an alternative to traditional survey. The next section explains details of the survey; designing, piloting and administering questionnaire, discussing validity and reliability, selecting samples and analysing data.

#### ***6.4.1.1 Designing questionnaire***

The questionnaire is divided into three sections. Section A includes ten questions about the participants' background to provide a descriptive analysis profile as a supplement to the findings. Section B encompasses five questions on perspectives of stakeholders concerning accountability within SIRC. Section C consists of two questions: the first is a list of disclosure items to identify the important information disclosure and the degree of importance for each; and the second contains two questions about whether Islamic thought may influence the expected disclosure content.

Okoli and Pawlowski (2004) suggest that the questionnaire survey should be designed in such a way that it can be completed within a maximum of 30 minutes to encourage participation. It is designed in a close-ended form for asking about accountability, disclosure items and level of importance<sup>70</sup>. Several open-ended questions elicit suggestions about additional disclosure items and Islamic influence on disclosure that they consider appropriate.

Since subject in this study is disclosure items, Section B lists of these items as the longest. The list was prepared initially following minimum disclosure guideline for preparing and presenting financial statements and annual reports, in the Malaysian Government Treasury Circular (MGTC) 4/2007. The relevance of MGTC in this study is justified on the grounds that an auditor is more likely to refer to the circular when conducting an audit

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<sup>70</sup>The disclosure items were drawn from extensive reviews of the related reporting framework and relevant literature whereas an ordinal five-point Likert scale ranging from 1=not important to 5=extremely important is used to indicate level of importance.

examination (Ismail and Bakar, 2011). This auditing applies to all Malaysian public entities including SIRC.

There are forty-six (46) items in the MGTC 4/2007, which are classified into seven categories, namely: corporate information (3), background (7), chairman's statement (9), report of government assistance (3), financial performance analysis (7), performance analysis (9) and financial statements (8). Although the majority of these items are taken into account in developing the disclosure list, other reference sources were also considered. These are: a) Public Administration Development Circular (PADC 2/2005) - Performance indicator and measurement; the Malaysian Financial Reporting Standards (MFRS); and the Government Accounting Standards (GAS or *Piawaian Perakaunan Kerajaan* or PPK); b) International standards and guidelines consisting of the International Public Sector Accounting Standards (IPSAS) and the UK Statement of Recommended Practice for Charity Bodies (SORP); and c) Literature reviewed on external reporting of financial statements and annual reports for public sector organisations and NPO.

The basis of the sources of reference for selecting disclosure items helps to identify the potential items. Considering this, the list is presented in Appendix A, in which the guidelines, statutory requirements and accounting standards were denoted as reference numbers 1 to 5 and previous studies were labeled numbers 6 to 20. The previous studies were about SIRC themselves, local authorities, non-profit organisations, charity bodies, public governmental entities in Malaysia and other countries such



as the UK, Australia, New Zealand, Hong Kong and Ghana. These references are to be compared and contrasted with each other using a worksheet to identify the disclosure items included in the list of the questionnaire sheet in Section B. A reconciliation of the disclosure items was made, similar items were removed and different items were added to the list. Several practical decisions were required to reduce these excessive disclosure items to a total of fifty-seven. A covering letter to the questionnaire and sample of a set of questionnaire is shown in Appendix B.

#### ***6.4.1.2 Piloting questionnaire***

Piloting the questionnaire with a small and real group of participants before actual circulation was essential to evaluate the validity and reliability of the questions. The respondents assessed the content of questions to assure their clarity, to minimise ambiguity in wording used, to promote their relevancy and specificity in relation to the topic. This pilot testing also considered questionnaire design such as appearance, the covering letter, instructions, question layout and the time taken to complete the questionnaire.

In this regard, the researcher reviewed the questionnaire in three stages. Firstly, the questionnaire was developed and refined through extensive consultations with the supervisors to look at the content, structure and wording of the questions prior to the piloting. Secondly, the questionnaires were sent to three academics who are actively undertaking research on disclosure of the Malaysian public sector. Thirdly, the questionnaires were piloted with five experts working in the Malaysian government and private

sectors, (three of them are civil officers and two are senior managers in industry), because it would involve experts in various backgrounds. Finally, questionnaires were sent through email to the identified participants. According to Emory and Cooper (1991), between 25 and 100 respondents are appropriate for a pilot study.

In this study, two rounds of pilot tests were conducted. From the first, involving thirty-one respondents, two main pieces of feedback were obtained. Firstly, in addition to the disclosure items, another construct of accountability was suggested, namely the meaning of accountability in general and accountability from an Islamic perspective. Secondly, a question was required to identify the capacity of respondent, (either internal or external stakeholder) to be used for robust analysis. Both suggestions were discussed with supervisors with subsequent amendments. A second round of the pilot study tested the revised questionnaire with thirty-five respondents. Some statements, especially the translation of new constructs into the respondents' first language were improved while others had no major amendments.

#### ***6.4.1.3 Validity and reliability***

From the pilot study, issues of the validity and reliability of the instruments were addressed. Validity cannot be quantified by statistics; however, the instruments developed in this survey have been used in previous studies. All items were contextualised in the pilot study to measure the instruments' validity. On the other hand, reliability can be tested using a statistical technique, namely Cronbach's Alpha. A Cronbach's Alpha test was

conducted in this study to address the reliability of the internal consistency and scale measurement (Bryman and Bell, 2011). A rule of thumb indicates a value of 0.7 is an acceptable measure for established research, but 0.6 is still acceptable for exploratory research (Hair *et al.*, 2010). Results of the reliability test of the questionnaire are presented in Table 6.1.

**Table 6.1: Reliability coefficient for final pilot test**

Section	Subsection	No. of item	Cronbach Alpha
Section B (New construct)	Meaning of accountability	6	0.707
	Accountability in Islam	6	0.877
	Accountability to whom	6	0.740
	Accountability for what	4	0.903
Section C (Disclosure items)	Corporate info	7	0.900
	Strategic info	5	0.839
	Financial performance	9	0.960
	Non-financial performance	8	0.949
	Financial statement	28	0.988

Table 6.1 shows that the coefficient alpha for all items was more than 0.7. In particular, items in Section B show coefficients ranging from 0.707 to 0.903, whereas for Section C, the lowest coefficient alpha was 0.839 with the highest of 0.988. This indicates that the questionnaire is reliable and acceptable for further data collection.

**6.4.1.4 Sample selection**

A population should be identified by drawing a sample. The population in this study involves stakeholders of SIRC who affect and are affected by the action/inaction and reporting of SIRC. The survey was conducted online and thus requiring internet access. Next, a sampling frame that contains a list of all cases in the population from which the sample is drawn should be identified (Saunders *et al.*, 2012).

In general, all Muslims in Malaysia are stakeholders of SIRC because they are subject to the Islamic jurisdictions issued by the SIRC. However, two issues should be addressed; which stakeholders belong to which SIRC and the capacity of the stakeholders. It is essential to differentiate the opinions of different stakeholders across regions while considering the different interests of numerous stakeholders. Based on the identified characteristics of the desired population, this could help to identify the sampling frame. However, there might be difficulties because this study involves a wide range of stakeholder groups and those who have internet access, resulting in a hidden population<sup>71</sup> making probability sampling problematic.

An alternative to sampling this population is non-probability (non-random) sampling. There are three main types of non-probability techniques (Bryman, 2008): i) convenience - participants are simply accessible to the researcher; ii) snowballing - initial participants who have been contacted by the researcher suggest other participants; iii) quota sampling - participants represent a population in relative proportions to different groups. The non-probability sampling is appropriate for exploratory studies and may be the most practical (Saunders *et al.*, 2012). Nevertheless, such sampling techniques are more likely to have low representation and findings cannot be generalised to statistically reflect the entire population. However, the identified research questions and the chosen research strategies are required for non-probability sampling to save time and reduce cost (Saunders *et al.*, 2012).

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<sup>71</sup>Heckathorn (1997) elucidates a 'hidden population' because no sampling frame exists in the absence of accessibility sampling parameters.

In this study, convenience and snowballing sampling are used. Convenience sampling involves internal and external stakeholders. A heterogeneous group of stakeholders are encouraged to participate due to their different perspectives that may promote high quality results. Such populations include those who have identifiable relationships with SIRC with the existence of online accessibility through Corporate Communication Executive (CCE) in each SIRC. The stakeholder groups can be approached with the help of the CCE to differentiate varying information needs.

As for the internal stakeholders, employees can be identified in a position of authority with knowledge of a particular issue (Donohoe and Needham, 2009), categorised into top officials, management and support staff<sup>72</sup>. Meanwhile, the external stakeholders are classified in the state regulators, creditors and the public (Tooley *et al.*, 2010)<sup>73</sup>. The Corporate Communication Executive (CCE) in each SIRC was contacted to assist the questionnaire distribution and the number of questionnaires sent to the participants was noted by the executives for recording purposes.

Snowball sampling was also used to increase the number of respondents. In each state, personal contacts were approached to nominate other potential participants. They were Muslims contributors, recipients and those who work or live in the locality of the SIRC. Those shortlisted were

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<sup>72</sup> The typical of employment levels are practiced in the government sectors and easily identified in the private sectors.

<sup>73</sup> The state government includes accountants in the respective state in which SIRC have to report to as well as creditors who have different interest in the SIRC annual reports. The public are those who have an identifiable relationship with the SIRC and were interested in participating including contributors, beneficiaries, people who rented out premises of SIRC and those who lived or worked in the locality of the SIRC.

contacted through personal email and social networking to confirm their willingness and availability to participate.

However, both convenience and snowball are non-random sampling which may result in bias. However, controlled non-probability sampling may be acceptable with additional care over sampling (Cooper and Schindler, 2006). All important demographic profiles of the participants based on the capacity of the SIRC stakeholders, either internal or external stakeholders, were considered. In terms of the sample size, given a hidden population, although the number of the sample is undefinable, identical questionnaire distribution may address the bias problem. The CCE in every SIRC from fourteen states throughout Malaysia was asked to send a hundred questionnaires comprising a ratio of 40:60, internal and external stakeholders. This makes up a total of 1400 which might be more due to the snowball sampling.

#### ***6.4.1.5 Administering the questionnaire***

An online questionnaire was administered via email through the CCE of each SIRC. Meanwhile, the researcher also used personal contacts to approach other respondents through email and text messages via online social media to redirect them to the online survey. Such wide coverage and fast media are crucial for data collection to increase responses and speed up the data collection process. The respondents were selected based on their identifiable relationship with the SIRC, emphasising the stakeholders' perspectives. As such, a cross-group comparison between the internal and external stakeholders can be performed so that major differences between

the powerful and disadvantaged stakeholders can be determined, as posited in disclosure theories (see Section 4.3, p. 76). A period of four weeks was taken to administer the questionnaire. After two weeks, a reminder was sent to the participants through the CCE.

#### **6.4.1.6 Analysing data**

The analysis of responses used IBM SPSS statistics version 21 and the response data was imported from Google docs. Data coding was entered into SPSS using numerical codes to minimise errors within a short time (Saunders *et al.*, 2012). Descriptive statistics were used to organise and describe the characteristics of the data collected in a more presentable format using tables and graphs. Collis and Hussey (2009) suggest that data presentation includes frequency and measurements of central tendency (mean), tabulation and change. Next, Mann-Whitney (MW) and Kruskal Wallis (KW) tests were used to examine the differences between independent samples on the perceptions of stakeholders concerning accountability.

In this study, the indication of the disclosure items and their importance according to the responses were analysed using average ratings (mean) and standard deviation<sup>74</sup> for each disclosure item. The means were used to develop a disclosure index (Hooks *et al.*, 2012). Any additional items proposed by the participants are to be reconciled. Each of the items is analysed accordingly and subjective opinions given by the participants are categorised and summarised. The process of reconciliation and validation

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<sup>74</sup> A lower standard deviation indicates a better consensus of response (Coy *et al.*, 1994).

in the responses are carried out using the disclosure items and their weighting of importance. The final findings are then used as a self-developed disclosure index to evaluate the extent of SIRC annual reports (see Chakroun and Hussainey, 2014; Dumont, 2013; Hooks *et al.*, 2012; Coy and Dixon, 2004; Hookset *al.*, 2001, 2002). However, in this study there was no additional disclosure item suggested. Therefore, the original number of fifty-seven items suggested in the questionnaire remained to evaluate the extent of SIRC's annual reports were unchanged.

#### **6.4.2 Disclosure index and regression**

In the second stage, disclosure index and regression are carried out to achieve the second objective of this study; to identify the determinants of SIRC's annual reports using regression (see Table 1.1, p. 8). The findings from the first stage are used to develop the index to articulate the study context (Hassan and Marston, 2010). The self-developed disclosure index in this study indicates whether the information being disclosed in SIRC's annual reports meets the expectations of the stakeholders; it empirically examines the SIRC's annual reports. The scores of extent and quality of disclosure are used to identify their association with the SIRC specific financial characteristics. There are several steps: determining criteria of the extent and quality of disclosure, the scoring method and addressing issues on validity and reliability, determining the annual reports sample, analysing data and screening data for regression.



#### **6.4.2.1 Determining criteria of the extent and quality of disclosure**

The evaluation of SIRC's annual report was examined for its detailed inclusions and their importance, emphasizing the presence of the disclosure items. After identifying the expectations of stakeholders on what information they wanted from the SIRC's annual reports in the first stage, details of disclosure items (Al-Razeen and Karbhari, 2004; Naser and Nuseibeh, 2003) and their importance (Coy and Dixon, 2004 and Hooks *et al.*, 2012) can be generated to develop an index. Based on the developed index, the extent of disclosure was evaluated. If the item was disclosed, the full score of importance was awarded; whereas if the item was not disclosed, a zero score was given. Furthermore, the quality of disclosure items was determined based on the qualitative characteristics (18) as produced by Beest *et al.* (2009), which rely on the IFRS conceptual framework (see Section 5.2.3); namely, relevance (2), faithful representation (5), understandability (4), comparability (6) and timeliness (1). Each report was evaluated based on the 'benchmark' score, ranging from poor (1) to excellent (5).

However, some of the characteristics have been modified to contextualize the SIRC study setting. Two different sets of qualitative characteristics for non-financial (11) and financial statement (9) disclosure were designed. All five characteristics were adapted to measure the quality of financial disclosure, whereas for non-financial disclosure, 'timeliness' was dropped due to the voluntarily nature of non-financial disclosure. Details of the operationalisations of the qualitative characteristics and scales of their

measurements for non-financial and financial statement disclosure are presented in Appendix C and D, p. 345 and 347 respectively.

#### **6.4.2.2 Scoring method**

There are two approaches used in previous studies in scoring annual reports, namely the unweighted and weighted disclosure index, to assure consistency. The unweighted disclosure index assumes all items are treated as equally important to all users of annual report and thus, regarded as an independent method. The weighted index assumes that the importance of each item is treated differently by varying users. Unweighted index uses 'dichotomous' scoring, where score '1' is given for disclosing, '0' for not disclosing or 'N/A' for not applicable (Dixon *et al.*, 1991), indicating no penalisation is made for not disclosing an item that is not relevant. In contrast, the weighted index uses weights to assign the level of importance for every item (e.g. Chakroun and Hussainey, 2014; Hooks *et al.*, 2012; Tooley and Guthrie, 2007; Coy and Dixon, 2004).

This study adopts both the unweighted and weighted index using a five-point Likert scale of weighted importance<sup>75</sup> based on the stakeholders' views. Therefore, for each disclosed item, '1' is scored and '0' if otherwise and then this is used to measure the extent of disclosure by using a ratio between the SIRC's score and the relative maximum possible score<sup>76</sup>. The weighted index was also used to reflect its relative importance to the stakeholders; representing standard disclosure to measure the extent of disclosure (Coy and Dixon, 2004). The results of mean calculations were

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<sup>75</sup> Using the weighted importance, a value is assigned from '1'=disclosure item is not important to '5'=disclosure item is extremely important.

<sup>76</sup> This is not to penalise for any irrelevant item to SIRC for not disclosing the item.

used to reflect the weighted index for each item, whereas average standard deviations were summarised for all items. Nevertheless, the use of a weighting index has been criticised due to the difficulty in achieving consensus because different users may perceive different item as important, which leads to different weights (Marston and Shrives, 1991). This issue can be addressed by involving various stakeholders to reflect their needs (Hooks *et al.*, 2001 and Coy *et al.*, 2001).

Regarding quality, a comprehensive measure to operationalise the qualitative characteristics of a comprehensive annual reports was adapted from Beest *et al.* (2009), involving both fundamental and enhancing qualitative ones. Each of the qualitative characteristics was scored using mean scores out of five measures. The sub-score for each attribute in every qualitative characteristic represents the qualitative framework as proposed by the International Accounting Standard Board (IASB), which has also been adapted in Malaysia as the Malaysia Financial Reporting Standards (MFRS). The qualitative characteristics are discussed in Section 5.2.3. The final score for disclosure was made up of the score of extent and quality of disclosure. It was computed as a percentage to identify the final score of annual reports and their sub-reporting of non-financial and financial statement disclosure.

#### **6.4.2.3 Validity and reliability of disclosure index**

There are two issues in an empirical study, namely validity and reliability of research instrument, that must be addressed (Coy and Dixon, 2004). A disclosure index is valid when the index can adequately measure the

concept of interest and a panel of judges can attest to the content validity of the instrument (Sekaran, 2009). The research instruments involved a list of disclosure items from a survey in the first stage, thereby addressing the validity issue. This was summarised to produce disclosure items and their importance weightings using mean scores.

The reliability of the disclosure index was addressed by performing a pilot study which involved the researcher and an independent researcher<sup>77</sup>. This pilot test was performed on four SIRC annual reports, consisting of two sampled annual reports for years 2006 and 2007. Those were the only annual reports available in the few years prior to 2008 being studied and they were not included in the actual application of the disclosure index. The index is reliable if there is no significant difference between the scores. In the pilot study, the developed index was applied, a score was given and the identified score was compared between the researcher and another researcher, designated as Researcher A and B respectively. The score results of annual reports, non-financial and financial statements were compared. The scores obtained by Researcher A and B were similar. A t-test<sup>78</sup> also reported that there are no significant differences ( $p\text{-value} = >0.05$ ) between the scores of annual reports, non-financial, and financial statements (Appendix F), therefore indicating that the developed disclosure index is reliable for application.

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<sup>77</sup> She is a researcher in accounting disclosure.

<sup>78</sup> The distribution of data is normal here which allows t-test to be used to check any significant difference between the computed scores of disclosure.

#### ***6.4.2.4 Determining the annual report sample***

Prior to the application of the index, identification of feasible annual reports encompassing both financial statement and non-financial information is crucial. To date, the preparation of the annual report is not mandatory, unlike the financial statement. Therefore, a report beyond the financial statement, as a comprehensive annual report, is prepared on a voluntary basis. When the SIRC were contacted about obtaining their annual reports, most of them viewed the financial statement being the report.

There are fourteen SIRC in Malaysia as shown in Appendix E. The whole population of the fourteen SIRC was contacted and a letter was sent to request their annual reports for the six years prior to the most recent publication year (2013)<sup>79</sup>. The letter in Malay was translated into English for the purpose of this report (see Appendix G). A total of thirty-one annual reports were obtained from eight of the SIRC, whilst others had never prepared an annual report. This exploratory study thus involves case studies of the eight SIRC from 2008 to 2013. Their annual report publication prior to 2008 was very low: of the eight SIRC not even half of them had prepared the comprehensive annual report. It is less likely therefore, to obtain the annual reports prior to 2008. Afterwards, however, the numbers improved, probably due to the implementation of the

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<sup>79</sup> This is because the evaluation of the SIRC annual reports began at the end of 2014.

Accountability Index (FMAI)<sup>80</sup>, which encouraged the accountability mechanism through annual reporting.

An examination of annual reports using a self-constructed disclosure index in this study is timely to articulate the needs of a particular context (Hassan and Marston, 2010). The uniqueness of the SIRC has resulted in particular relevance of the developed disclosure index, and as a result this study may form the basis for future research. The suggestion of disclosure through annual reporting might also be interesting for the discharge of accountability to encourage the publication of SIRC's annual reports.

#### ***6.4.2.5 Analysing data***

After evaluating the extent and quality of disclosure for the SIRC's annual reports disclosure, the researcher computed final scores of annual reports and their sub-reporting scores of non-financial and financial statements. The scores were used for testing the research hypotheses in relation to SIRC's specific financial characteristics. Three different types of annual reports, non-financial and financial statements disclosure appear to be essential, because only a financial statement is mandatory while the other two are voluntary. Therefore, the influence of regulation on disclosure can be shown.

Similar to the previous disclosure studies, the association between disclosure and organisational financial characteristics was tested using correlations and regressions. A Pearson product moment correlation and multiple linear regression in multivariate analysis were used in this study.

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<sup>80</sup> FMAI is a star rating system in which it is an objective tool to measure financial management performance and accountability. The total score and levels of ratings are.

The former is a standardised measure of the strength of a relationship (in this study) between dependent (the extent and quality of disclosure) and independent (financial specific characteristics) variables. The latter is to provide empirical evidence on the determinants of disclosure by testing the hypotheses developed in Section 5.4. The results are presented in Tables 8.3 and 8.4, p. 209 and 211 respectively.

#### ***6.4.2.6 Data screening for regression***

Prior to the multiple regression analysis, identifying the appropriate statistical technique is crucial, otherwise the results are unreliable (Field, 2009). The two statistical techniques to test the hypotheses are the parametric test for data with normal distribution and the non-parametric test for non-normally distributed data. However, the parametric test appears to be more powerful since the results are able to detect differences across groups and relationships that exist between the variables (Field, 2013). For that reason, the normality of data distribution was checked so that it was possible to use parametric tests. There are several approaches that can be used to check the normality of data, these are: Skewness and Kurtosis, Kolmogorov-Smirnov, Shapiro-Wilk tests, graph of Q-Q plots and standardised residuals.

The stated first three approaches were used to evaluate the normality of data distribution. The results of these tests showed that the data is not normally distributed; as Pallant (2013) indicates, not all attributes that researchers want to measure are normally distributed. Next, normal P-P plot of standardised residual and its scatterplot are examined. The

scatterplot is useful to check for normality, linearity and homoscedasticity (Tabachnick and Fidell, 2014). It was found in the normal P-P plot of the dependent variables that the points lie in a reasonably straight diagonal line from bottom left to top right. This suggests that there were no major deviations from normality (Pallant, 2013). Referring to the residual scatterplot, the shape is nearly rectangularly distributed with a concentration of points along the centre. This indicates that the normality and linearity assumptions are satisfied, evident from the roughly rectangular shape distribution on the residual scatterplot graph (Tabachnick and Fidell, 2014; Pallant, 2013). Both graphs of normal P-P plot and residual scatterplot are attached in Appendix H, p. 353.

In addition, Gujarati and Porter (2009) argue that central limit theorem is a theoretical justification of normality of data distribution. The theory states that when sample size is larger (usually more than thirty), there is a normal data distribution in which the mean is equal to the population mean and standard deviation. On the other hand, as the sample is relatively small (less than thirty), usually the sampling distribution is not normal (Field, 2013). Likewise, Hair *et al.* (2010) added that if the sample has fifty or less than thirty observations, a significant departure from normality can have a substantial impact on the results. The number of observations is seventy-two which is not too small in relation to central limit theorem, and therefore the normality issue is less important while the parametric test of multiple regression is pertinent.



Besides normality, other assumptions for multiple regression were addressed, namely: multicollinearity and heteroscedasticity, to avoid a modelling problem in multiple regression. Multicollinearity exists when there is highly correlation of two or more independent variables in the same regression models. As Field (2013) suggests, multicollinearity should not exist in correlation analysis between two or more independent variables in a regression model. He further explains the relative results of multicollinearity such as statistical insignificance of important independent variables in the model, difficulty in identifying the important independent variables and unstable equations and estimated values of the regression coefficients. Furthermore, the perfect multicollinearity may also inflate standard errors for the coefficient of explanatory variables (Gujarati, 2009).

Therefore, Pallant (2013) and Gujarati (2003) suggest a correlation matrix and Variance Inflation Factor (VIF) to check the presence of multicollinearity. The value of the correlation coefficient of perfect multicollinearity across independent variables varies. According to Gujarati (2003), if the correlation coefficient more than 0.8 in the same analysis, it indicates a perfect multicollinearity exists, whereas Pallant (2013) provided a stricter of cut-off point of 0.7. Regarding the VIF test, cases with a value of VIF exceeding 10, show a serious multicollinearity. The reciprocal of VIF ( $1/VIF$ ) shows Tolerance should exceed 0.1 to indicate non-multicollinearity.

Based on the above discussion, the correlation matrix of Person product moment correlation and VIF were used in this study similar to previous

studies such as Aly *et al.*, 2010; Hussainey and Al-Nodel, 2008; Owusu-ansah and Yeoh, 2005 to inspect for multicollinearity. The results of correlation matrix and VIF show that multicollinearity does not present difficulties in this study (see Tables 8.3 and 8.4).

Heteroscedasticity is another problem that should be avoided, to satisfy the assumption of multiple regression. The residuals of independent variables must have the same variances, otherwise both t-test and F-test could be highly misleading due to the cases of heteroscedasticity (Gujarati, 2003). This can be addressed by examining the presence of outliers. According to Tabachnick and Fidell (2014), the outliers can be identified using standardised residual and Cook's Distance. Any cases with a value of standardised residual more than 3.3 indicate a potential problem of outliers. They further explained that cases with a value of Cook's Distance exceeding 1 are problematic.

Based on the above arguments, both standardised residual and Cook's Distance are used in this study to address the heteroscedasticity issue by identifying the existence of outliers. It was found that the values of standardised residual and Cook's Distance indicate that there is no outlier (see Table 8.4). The data screening of assumptions for multiple regression has been fulfilled. Consequently, multiple regression in this study is pertinent.

#### **6.4.1 Interviews**

The final stage involves interviews to investigate factors influencing disclosure in the SIRC's annual reports (see Table 1.1). According to Leedy

and Ormrod (2010), an interview can yield a great deal of useful information to explore in-depth explanation. Silverman (1993) (cited in Leedy and Ormrod, 2010), listed several questions that may be raised by the interviewer about what people think should be done and why people think that engaging in a certain behaviour is desirable or undesirable. The former includes questions such as people's perspectives about the facts, present and past behaviours, standards for behaviours and conscious reasons for actions and the latter includes conscious reasons for actions.

Next, semi-structured interviews were conducted to address the basis of the disclosure practices. Specifically these investigated how disclosure items were chosen relating to information, the influence of Islamic thought on the SIRC annual reports, reasons/constraints of such disclosure/non-disclosure or not preparing an annual report and explaining why annual reports are not mandatory. Details of the interviews, including interview design, sample selection of interviewees, analysing interview data and validity and reliability issues are discussed next.

#### ***6.4.1.1 Interview design***

There are three types of interview (Denzin and Lincoln, 2000); a) structured which records precise data of a codeable nature so that behaviour within pre-established categories can be explained; b) unstructured which understands the complex behaviour of members of society without imposing any previous categorisation that may limit the field of inquiry; c) semi-structured, namely both structured and unstructured interviews, which are carried by means of an interview guide to ensure important

topics are discussed during the interview. Widely used semi-structured interviews are adopted, to gain rich understanding in exploratory studies (Saunders *et al.*, 2012) and when an informant's response cannot be predicted in advance (Wengraf, 2001).

Prior to the interviews, an interview guide was prepared and checked by supervisors, two accountants and two researchers in public sector accounting, to ensure the questions were appropriate (see Appendix I). Any irrelevant and unclear questions were revised accordingly. Such pre-designed and open-ended questions are used to control the interview session and by probing, to elicit further explanation. However, the interviewer may modify the interview procedure in response to the respondent's replies to the questions. Gilbert (2008) suggests the same questions for every interview but the order could be changed depending on the conversation flow. Additional questions may be required to explore identified research questions (Saunders *et al.*, 2012).

In this study, the interviews are conducted in Malay (official language in the Malaysian public sector) via Skype. The Skype interviewing is a useful replacement for traditional face-to-face interviews to gain access to interviewees (Deakin and Wakefield, 2014). The majority interviews lasted between 30-45 minutes to a maximum of 60 minutes. The conversations were recorded with the consent of interviewees.

#### **6.4.1.2 Sample selection of interviewees**

This study shows various different perspectives of interviewees in order to gain insights into the SIRC annual reports, thereby representing each

stakeholder group illustrated in Table 2.2. These are preparers (10 accountants<sup>81</sup>), policy makers (3 accountants in the Federal and State Governments) and users<sup>82</sup> (3 auditors in the state government and 2 contributors/academics). There are two common questions to ask all interviewees about the second research objectives, whereas additional questions address the third research objectives, asking the preparers, non-preparers and policy makers, but not the users. Their consent is requested.

#### ***6.4.1.3 Analysing interview data***

The interviews were digitally recorded, for which consent from the interviewees was sought. Note-taking was also undertaken during the interview sessions to record important details and as a back-up in case the recorder failed during the interviews. Some keywords and shorthand were used to allow focus on the interviews, and the notes were reread and detailed immediately after the interviews.

All the digitally recorded interviews were listened to and transcribed verbatim to a word processor. A second listening was performed to ensure consistency between the recorded and transcribed data whilst considering the written notes. As the interviews were conducted in Malay, Malay transcripts which were related to the research questions only were translated into English by the researcher. A lecturer from the English

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<sup>81</sup>The SIRC accounting personnel include the Accounting Officers. Section 4 of Financial Procedure Act, 1957 defines an accounting officer as every public officer who is in charge of maintaining a proper book of accounts.

<sup>82</sup> The auditors in the state government are the main users of SIRC annual report since SIRC is required to report to its state government. The contributors/academics (Professor in Public Sector and Islamic Accounting) are considered those who are interested in the SIRC annual reports as funders and knowledgeable.

Department, well versed in both languages, translated the earlier translated transcripts into Malay again to ensure the original meaning.

The transcribed data was examined for keywords answering the research questions using an open coding. This was drawn from the actual words used by the interviewees, which allowed the data to 'speak for themselves' instead of depending on a list of themes suggested in the literature. The coding process was carried out manually by writing the appropriate codes in the margins of the transcripts. Then, the identified codes were classified into related themes.

A software package for a qualitative data analysis, namely NVivo 10 was used to ensure the main themes were coded properly and to allow a robust check of data analysis. Several steps were taken to analyse data using NVivo. Firstly, the English transcription was entered in Microsoft Word into NVivo software. Secondly, a code was created at free nodes based on keywords and sentences relevant to the research questions; codes were refined. Thirdly, codes were examined for possible interrelated nodes in the tree nodes, and the related nodes were organised to produce a hierarchy of relationships. The nodes were removed and reorganised to consolidate the designated themes.

#### ***6.4.1.4 Validity and reliability issues***

It has been argued that addressing validity and reliability issues in interviews is essential. Validity means identifying whether the findings are accurate from the standpoints of the researcher, the participants and the readers by employing certain procedures (Creswell, 2011). Reliability refers

to consistency across different researchers and projects. The validity issue can be addressed by using the triangulation approach (Arksey and Knight, 1999). Both issues need to be addressed. This study seeks the opinion of stakeholders through survey, interviews and examines the SIRC annual reports to assure validity of the findings. This triangulation data may enhance the validity of the findings in this study.

Concerning reliability, Arksey and Knight's (1999) explanation of how the research has been undertaken to achieve the research objectives, may help to address reliability. This study has provided details on how the data is collected via the survey, interviews and disclosure index in this chapter. Finally, the usage of NVivo 10 software could assist consistent data analysis and a competent coding and sorting of data, resulting in a robust analysis.

## **6.5 Ethical considerations**

According to Creswell (2011), several ethical issues are raised when conducting research, whereas researchers have to respect the participants and the sites for research. This study follows ethical procedures to ensure that the research is carried out ethically. Consequently, approval from the University Research Department Committee (URDC), University of Gloucestershire, was sought before conducting the data collection. Subsequently, a letter for interview arrangements was issued by the Business School (see Appendix J). Several ethical considerations are addressed here: informed consent, anonymity, confidentiality and data protection (Collis and Hussey, 2009).

First, informed consent from the participants is prepared on the front page of the questionnaire and in an introduction to the interview session. Therefore, prior to embarking on the questionnaire and interview, they have already been informed about their rights so as to protect them. Participants know the identity of the researcher, her sponsorship, employer institution and purpose of the research (Sarantakos, 2005). They should also know about the assurance of confidentiality and anonymity of the organisation they represent, their right not to answer certain questions and the researcher's plan for future publication of findings in a thesis, journals and any conference presentation.

Secondly, the anonymity and confidentiality of participants, their names and organisations are not to be disclosed in this study. Such details are denoted using letters and number; for instance financial preparer from SIRC1 was assigned AC1 where AC means accountant, and 1 refers to SIRC1. Concerning the questionnaire, participants from the anonymous organisations representing various organisations are assigned as R, AU, and C denoting regulators, auditors and contributors respectively.

Thirdly, all files encompassing confidential and personal data have to be properly labeled and held in a restricted, secure and safe place in order to manage data ethically and lawfully. This includes questionnaire sheets, transcripts of interview and other digital materials which are kept in the locked cabinet at the researcher's office. Data held on external hard disk drives and audio recordings are saved in a computer protected through the use of a password (Saunders *et al.*, 2012) of the Gloucestershire



University's network that only can be retrieved by the researcher. However, for the purpose of cross checking data analysis, the transcripts are shared with the PhD supervisors through password protected email. The UK Data Protection Act 1998 dictates that files containing confidential data must be securely kept and saved not longer than necessary for a maximum of five years; such ethical procedures are essential to ensure legality and avoid harming the participants involved in this study.

## **6.6 Chapter summary**

In this chapter, the research methodology and methods are discussed prior to embarking on the empirical investigation. This study has exploratory, descriptive and explanatory purposes using the abductive approach, applying existing theories in the SIRC study setting for theory developments. Following the pragmatism used in this study, mixed method is pertinent; both quantitative and qualitative approaches are used.

There were three sequential stages for the collection of data. Firstly, an online questionnaire survey was carried out to understand the perspectives of stakeholders concerning accountability within SIRC and to identify disclosure items expected by the stakeholders with their determined importance weighting. Secondly, the finding of disclosure items in the first stage was used to develop a disclosure index for examining the determinants of SIRC annual reports. Thirdly, further investigation was carried out using interviews, augmenting the findings and to discover factors that influence the current reporting practices of SIRC and the basis of such practices.

## **CHAPTER 7 QUESTIONNAIRE RESULTS**

### **Perspectives of Accountability and Expectations of Information Disclosure of SIRC**

#### **7.1 Introduction**

This chapter analyses the results obtained from the online questionnaire survey to address the first research objective of this study, to identify the perceptions of stakeholders in relation to accountability within SIRC. Three sub-research questions were posed to achieve the objective, which were:

- a) What are the stakeholders' perceptions of SIRC regarding accountability?
- b) Does Islamic thought influence the content of SIRC's reporting?
- c) What are the expectations of information disclosure in the SIRC's annual reports to discharge their accountability?

The questionnaire consisted of three sections; firstly, the demographic profile, secondly questions about the general meaning of accountability (rather than SIRC) consisting of six statements. Further statements in this section deal with accountability within SIRC in terms of who SIRC are accountable to and why. Thirdly, fifty-seven items of information disclosure and the level of importance for each disclosure item were provided for the respondents. The respondents were then asked to indicate the extent of their agreement with each statement, using a five-point Likert scale.

The subsequent sections, 7.2 and 7.3, in this chapter present the response rate and profiles of the respondents. Next, the findings for the three sub-research questions are discussed in Section 7.4. Section 7.5 summarises the whole chapter.

7.2 Responses rate

As of 13 April 2015, 545 respondents were recorded in *Google Doc*; eleven respondents were excluded due to the duplication of submissions. The total number of useable respondents was 533, which constituted 36% of the response rate. Details of the respondents profile will be discussed next.

7.3 Profile of respondents

The respondents were analysed based on the stakeholder groups, either internal or external (Steccolini, 2004),then sub-grouped into three categories for each; the internal group was categorized into three sub-stakeholder groups in the SIRC, namely top officials, management team and support staff, whereas the external group was made up of the public, oversight bodies and creditors. The distribution of the response rate is presented in Table 7.1.

Table 7.1: Number of response

Type	Sub-group	N	%
Internal stakeholders	Top officials	60	11.3
	Management teams	81	15.2
	Support staff	39	7.3
	Sub-total	180	34
External stakeholders	The public	236	44.3
	Oversight bodies	74	13.9
	Creditors	43	8.1
	Subtotal	353	66
Total		533	100

Based on Table 7.1, 180 of the respondents were internal stakeholders and 353 were external stakeholders, representing a proportion of 34:66. This is similar to the targeted responses of 40:60. Each sub-group in the category has a small sample except for the public (44%). The public group was

recorded as having the highest number of respondents but this is consistent with the theme of this study on public accountability. Due to the small proportion of each sub-group of respondents, a non-parametric test is pertinent, which in itself highlights the limitations in this study. Next, a summary of the profile of the respondents will be presented in Table 7.2.

Table 7.2: Summary of respondents’ profile

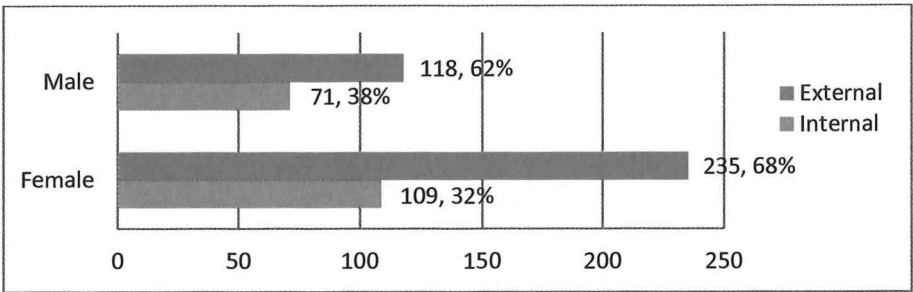
Profiles	Details	Internal	External	Total
Gender	Female	109 32 %	235 68 %	344 65%
	Male	71 38	8 62 %	189 36%
Age	below 30	116	186 62%	302 57%
	30-39	45	107 70%	52 29%
	40-49	16 24	52 77%	68 13%
	50 and above	3 27%	8 73	11 2 %
Education	SPM	34 32 %	71 68	105 20
	Diploma	25 45	31 55 %	56 1 %
	Degree	98 36	171 64%	269 51 %
	Masters	19 26%	54 74%	73 14 %
	PhD	4 13	26 87%	30 6%
Professional	No	167 35	315 65	482 90%
	Yes	13 26%	38 75 %	51 10%
Specialisation	Business and Management	95 32%	199 68 %	294 55%
	Social Sciences and	49 34%	94 66%	43 27%
	Science and Technology	36 38%	60 63%	96 18%
Employment	Private	NA NA	62 74%	84 16%
	Government	180 100	255 63	406 76 %
	Self-employed	NA NA	22 88%	25 5%
	Other	NA NA	14 78%	18 3%
Experience	Up to 5 years	107 36 %	188 64%	295 55%
	6-10 years	38 36%	68 64%	106 20%
	More than 10 years	35 27 %	97 74%	132 25%
Regional	Central	51 28	129 72%	180 34%
	North	38 41 %	54 59%	92 17%
	East coast	31 38 %	50 62%	81 15%
	South	23 31%	52 69%	75 14%
	East of Malaysia	37 35%	68 65%	105 20%

Below are the details of each category of the respondents’ profiles.

7.3.1 Gender of respondents

The majority of both internal and external stakeholders who responded were female, 61% and 67% respectively. More than half of the respondents were female, a similar proportion in terms of gender of the entire internal and external respondent population (see Figure 7.1).

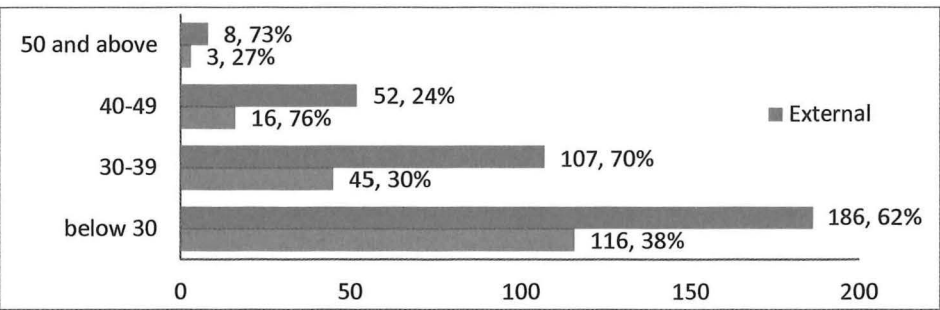
Figure 7.1: Gender of respondents



7.3.2 Age of respondents

The ranking of age levels between internal and external stakeholders who responded was similar starting from aged below 30, 30-39, 40-49 to 50 and above. Based on the ranking, in total 57%, 29%, 13% and 2% were recorded respectively. This reveals that nearly 90% of the respondents were below 40, but it also shows that they have sufficient, reasonable experience and knowledge to respond to the given questionnaires (see Figure 7.2).

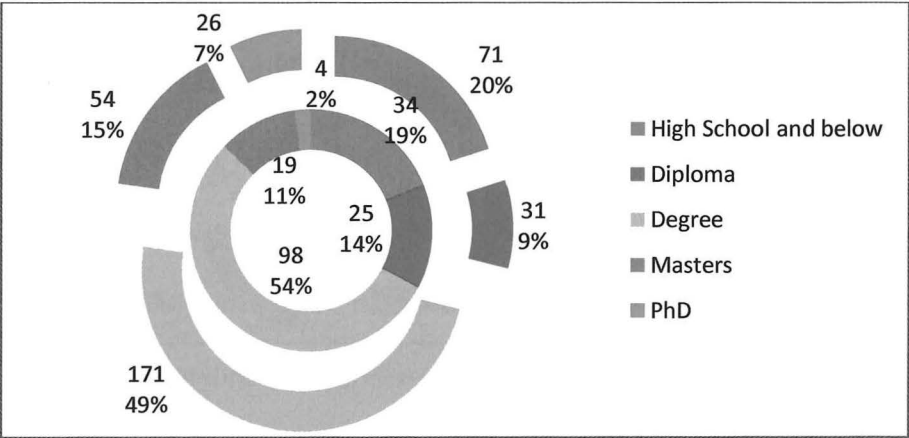
Figure 7.2: Age of respondents



7.3.3 Education and professional qualifications of respondents

The qualifications held by respondents from internal stakeholders are shown in the inner circle (see Figure 7.3), whereas those of external stakeholders are in the outer circle. The majority of respondents have a high level of education. More than half of the internal stakeholders (54%) have a first degree, which is similar to qualifications of the external stakeholders (49%). As for the internal stakeholders, other qualifications include Diplomas (14%), Master’s Degrees (15%), high school/foundation education (9%) and PhDs (2%). The external stakeholders have degrees (20%), Master’s Degrees (15%), Diplomas (9%) and PhDs (7%). However, 10% have various professional qualifications, internal (7%) and external (11%), such as in Accounting, Finance, Computing and Engineering (see Figure 7.3). The high proportion of respondents with higher education levels implies that they are knowledgeable about their public rights, the main subject in the present study, and are therefore capable of answering the questionnaire.

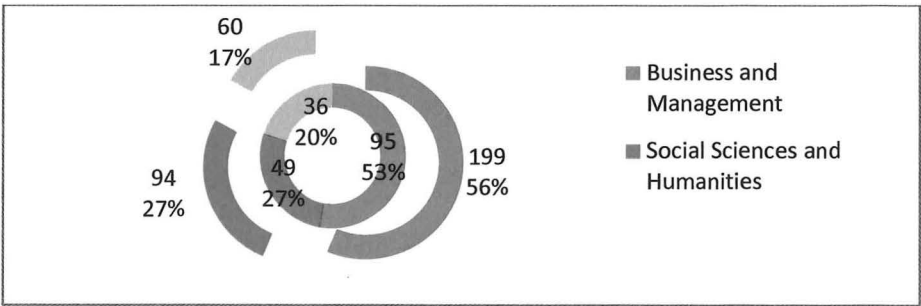
Figure 7.3: Academic qualifications



7.3.4 Specialisation of respondents

The inner and outer circles in Figure 7.4 show the proportion of specialisations of the internal and external stakeholders respectively; the entire respondent population is involved in several areas of specialisation. More than half of them (55%) are in Business and Management, with 27% in the non-business area, namely, Social Sciences and Humanities, whereas 18% are involved in Science and Technology (see Table 7.1). Both stakeholder groups have a similar proportion in each specialisation (see Figure 7.4).

Figure 7.4: Specialisations

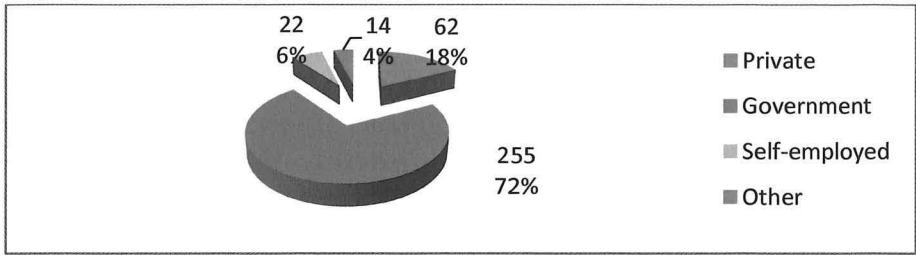


7.3.5 Employment of respondents

Figure 7.5 represents only the employment of external respondents as the entire group of 180 internal respondents in SIRC has been working for the government. Two hundred and fifty-five external respondents also work in the government, making a total of 76% (see Table 7.1). This is relevant as the scope of this study is about public service organizations. Other stakeholders, however, were considered within the purview of the public accountability theme in this study. In the external respondent group, 72% work in government while 18% are in the private sector, 6% are self-

employed and the other 4% includes housewives and pensioners (see Figure 7.5).

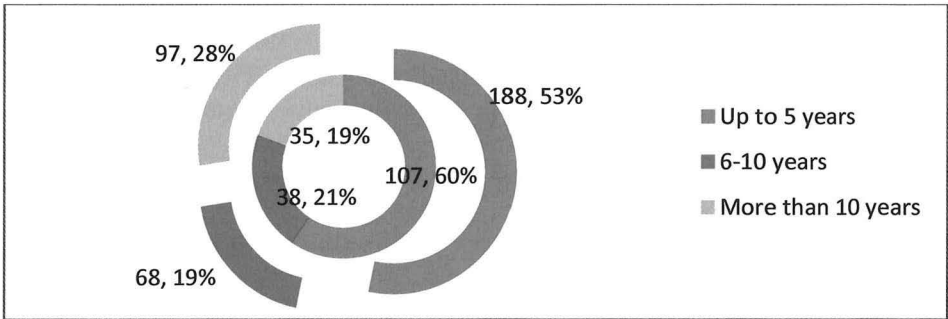
Figure 7.5: Employment of respondents



7.3.6 Years of work experience of respondents

Referring to Figure 7.6, the outer circle represents the external stakeholders and the other outer one represents the other internal stakeholder participants. For the external group, 53% have been in work for up to five years, 28% have over 10 years’ experience whereas 19% have 6-10 years’ experience. In the internal group, 60% of the respondents have up to 5 years of experience while 21% have 6-10 years and 19% have over 10 years. That order of length of experience applies also to the entire population, namely, 55%, 25% and 20% respectively (see Table 7.1).

Figure 7.6: Years of experience

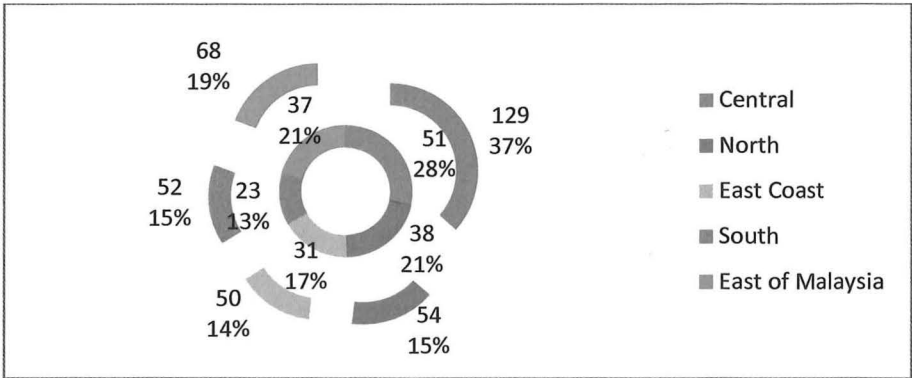




7.3.7 Locality of respondents

The respondents’ locality was identified and used in a Kruskal-Wallis test, to understand the variance within stakeholders according to their locality, and the perspectives of accountability in relation to SIRC. In both stakeholder groups, the majority of internal (28%) respondents, represented by the outer circle, and external (37%) respondents, represented by the inner circle, were in the Central region. Next, internal stakeholders in the east of Malaysia accounted for 21% of respondents, which was similar to the Northern region. Of these external respondents 19% are in the east of Malaysia, while 17% are in the North. The remaining regions of the East Coast and South ranged from 13%-17% for internal and external groups respectively. In summary, respondents from the Central region are the highest (34%), followed by the east of Malaysia (20%) and subsequently the North (17%). Respondents from the East Coast (14%) and South (13%) represented the lowest proportion for internal and external groups respectively (see Figure 7.7).

Figure 7.7: Locality of Respondents



## 7.4 Descriptive analysis of responses

Three questions were asked to indicate the perceptions of accountability on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree) for each given statement. Each of the statements had been extracted from previous literature. Results were presented to show the central tendency (mean), dispersion (SD) and distribution (Skewness and Kurtosis), and will be ranked based on the computed mean. The next sections discuss perspectives of accountability: meaning of accountability in general, Islamic accountability, accountability within SIRC, disclosure information and the influence of Islamic thought in disclosure.

### 7.4.1 Meaning of accountability

Based on Table 7.3, across the internal stakeholders or SIRC, the highest mean (4.14) implies that there was strong agreement on the 'obligation to take responsibility for actions and to explain such actions'.

Table 7.3: Descriptive statistics for accountability meaning

Meaning of accountability	Internal					External				
	Mean	Median	Skewness	Kurtosis	Rank	Mean	Median	Skewness	Kurtosis	Rank
1a. The obligation to take responsibility for actions and to explain such actions.	4.14	4.00	-1.11	1.72	1	4.28	4.00	-1.21	1.76	1
1b. An individual who is held responsible has a duty to provide an account (by no means necessarily a financial account) or reckoning of those actions.	3.87	4.00	-0.70	0.40	3	4.03	4.00	-1.13	1.55	3
1c. Responsibility is part of accountability (external) but accountability is beyond the responsibility (internal) aspect.	3.85	4.00	-0.09	-1.23	4	3.84	4.00	-0.32	-0.56	6
1d. Justification and answerability are important in achieving accountability.	4	4.00	-0.20	-1.28	2	4.06	4.00	-0.37	-0.8	2
1e. Accountability is synonymous with transparency but transparency does not form real accountability; instead transparency is essential for accountability.	3.8	4.00	0.00	-1.23	6	3.94	4.00	-0.35	-0.67	5
1f. The accountability aspect and the responsive approach are important mechanisms in public accountability.	3.84	4.00	0.06	-1.26	5	3.95	4.00	-0.24	-0.87	4

This result was agreed by the external stakeholders with a slightly higher mean of 4.28. Such a statement highlights two important aspects in explaining the meaning of accountability, which are obligation of responsibility and explaining such actions as defined by Gray and Jenkins (1993). Firstly, it supports this study which uses reporting to explain the discharge of accountability. Secondly, the most favourable statement was 'justifications and answerability' as agreed by the SIRC (mean=4) and external respondents (4.06) in response to the explanations given by Bovens (2007) and Patton (1992). Thirdly, a statement of 'duty to provide an account' (Gray *et al.*, 1996) recorded means of 3.87 and 4.03 for SIRC and external respondents respectively. Interestingly, the first three statements were ranked equally by both SIRC and external stakeholders.

In contrast, the lowest mean was differently ranked by both groups in that SIRC believed Bovens (2007b) and Fisher (2004) that 'accountability is synonymous with transparency and essential for accountability' (mean=3.80), whereas the lowest ranked according to external stakeholders was Mulgan's (2000) statement differentiating between accountability and responsibility (mean=3.84). This is probably due to SIRC's experiences of being transparent and is not enough to show they are accountable. Considering external stakeholders, the terms accountability and responsibility are treated equally while SIRC fully agreed with this as the mean is approximately similar (mean=3.85). Whilst external stakeholders agreed with Mulgan (2000) and Hood (1991) in their statement that accountability and responsiveness are important

mechanisms in public accountability, which they ranked fourth (mean=3.95), SIRC disagreed(mean=3.84) and ranked it as fifth.

Table 7.3 shows the majority of the responses for the meaning of accountability were negatively skewed to the left. There was not much variation concerning the meaning of accountability except for Gray *et al.*'s (1996) definition in 1b, the 'duty to provide an account'. Thus, it shows no statistically significant differences between the two groups of internal and external stakeholders as illustrated in MW test in general except for statement 1b, as presented in Table 7.4. This suggests that the internal stakeholders had a significantly different opinion in relation to statement 1b (p-value=0.0.4), compared to that of the external stakeholders.

Similar to this finding, the KW test showed there was no significant difference in the means of the response with the exception of 1b, since the means rank represents the locality of the respondents. It revealed significant differences in opinion between the five groups of the respondents from different localities as to whether an individual who has the responsibility, is obliged to provide an account (p-value=0.02). The mean group for respondents who lived in the East Coast was the highest, at 302.57. This result may be attributed to the variety of education levels among the respondents.

Table 7.4: Mean differences of responses by location and group of stakeholders

	chi-square	p-value	Mean Rank (KW Test)					MW Test	
			Central	North	East Coast	South	East of Msia	z-value	p-value
1a	8.719	0.069	271.28	264.40	299.67	264.55	238.49	-1.916	0.055
1b	11.345	0.023*	276.67	243.70	302.57	269.33	241.73	-2.091	0.037*
1c	3.402	0.493	264.83	259.44	294.21	261.03	260.61	-0.015	0.988
1d	9.41	0.052	274.26	246.73	304.51	247.91	257.00	-0.734	0.463
1e	8.993	0.061	281.89	249.96	292.48	237.73	257.66	-1.72	0.085
1f	7.066	0.132	273.42	264.36	297.80	251.00	245.99	-1.467	0.142

\*significant at 5% level

## 7.4.2 Islamic accountability

The next accountability meaning deals with the extent to which the respondents agreed with six statements about Islamic accountability (see Table 7.5). The meaning is pertinent as the SIRC being studied were established within an Islamic organisational setting.

Table 7.5: Descriptive statistics for Islamic accountability meaning

Islamic accountability	Internal					External				
	Mean	Median	Skewness	Kurtosis	Rank	Mean	Median	Skewness	Kurtosis	Rank
2a. Everyone is accountable to Allah for his/her action/s which is/are rooted within the core of Islamic pillars.	4.62	5.00	-1.535	0.823	1	4.64	5.00	-2.325	5.723	1
2b. The belief in the oneness of God ( <i>tawhid</i> ) is essential to explain accountability as custodians ( <i>khalifah</i> ) of the earth.	4.53	5.00	-1.304	0.481	2	4.59	5.00	-1.852	4.075	3
2c. The belief in the Day of Judgement is the final accountability as the basis of one's action.	4.53	5.00	-1.211	-0.105	3	4.62	5.00	-1.963	3.738	2
2d. Islam offers a complete way of life for both profane and sacred matters explaining accountability in Islam.	4.53	5.00	-1.301	0.289	4	4.56	5.00	-1.731	2.81	4
2e. The trusteeship ( <i>amanah</i> ) concept implies that rendering an account is essential to discharge accountability.	4.29	5.00	-0.647	-1.12	6	4.32	5.00	-1.175	0.98	6
2f. The responsibility ( <i>takliff</i> ) concept means that individual and social responsibilities are both important.	4.38	5.00	-0.937	-0.407	5	4.43	5.00	-1.146	0.598	5

Based on Table 7.5, the results from the SIRC and external stakeholders were negatively ranked for each statement. Their perspectives ranked the highest for numerous statements such as those from Sinclair, 1995; Ibrahim, 2001 and Haniffa, 2002 in relation to the higher principles. In particular, it was accountability to Allah (2a) with approximately similar

means of 4.62 and 4.64 respectively. In a similar vein, both SIRC, (mean=4.29), and external groups, (mean=4.32), ranked as the lowest according to Haniffa's (2002) statement, the trusteeship concept (2e) which implies that it does not provide an indicator of discharging accountability by releasing accounts; most likely, they are heavily relying on trust rather than on rendering an account.

SIRC strongly agreed with Baydoun and Willett (2000) and Maali *et al.* (2006) on the second ranking that *tawhid*, oneness of God (2b) is essential to explain accountability (mean=4.53) and that this should direct their operations in SIRC. Although external stakeholders ranked the *tawhid* concept as third, its mean of 4.59 was similar to SIRC that ranked Haniffa's (2002) and Osman's (2010) statement, 'believe in the Day of Judgment' (2c) as second (mean=4.62). This was ranked third by SIRC with a mean of 4.53. The fourth (means=4.53 and 4.56), fifth (means=4.38 and 4.43) and sixth ranks were in a similar order for SIRC and external stakeholders. They perceived that Islam offers a complete way of life (2d) (Lewis, 2006; Abdul-Rahman and Goddard, 1998), individual and social responsibility according to the responsibility concept in Islam (2f) (Maali *et al.*, 2006; Tinker, 2004; Lewis, 2001; Ahmad, 1999) and the trusteeship (*amanah*) concept implies that rendering an account is essential to discharge accountability (2e) and they all have equal ranking of importance. Overall, SIRC and external groups had similar opinions about Islamic accountability, with two exceptions for the second and third ranking, in which they had inverse opinions (*tawhid* and Day of Judgement) as shown in Table 7.5.

Table 7.6 presents the findings of a KW test, which reveal a statistically significant difference in Islamic accountability perspectives (statements 2a to 2e), with the exception of statement 2f within the sub-categories in the local areas in the group. Stakeholders on the East Coast had a significantly different opinion compared to the stakeholders in other regions with regard to the majority of the Islamic accountability meaning. This may be attributed to stakeholders’ demand to be more critical as this region is well-known as an Islamic State and in fact some of the states have been led by an opposition Islamic party, which might influence their expectations.

However, there was no significant difference regarding item 2f especially for stakeholders in the South in terms of the ‘responsibility concept that denotes both individual and social responsibilities as being important’. They were more likely to treat both individual and social responsibilities equally. To sum up, there was no real discrepancy between internal and external stakeholders regarding the concept of Islamic accountability (see Table 7.6).

Table 7.6: Differences in responses according to location and stakeholder groups

	chi-square	p-value	Mean Rank (KW Test)					MW Test	
			Central	North	East Coast	South	East of Msia	z-value	p-value
2a	9.978	0.041*	276.32	250.33	294.37	256.25	252.20	-0.692	0.489
2b	14.453	0.006**	269.89	253.80	299.41	285.35	235.49	-0.655	0.512
2c	13.844	0.008**	270.35	265.99	292.85	281.76	231.65	-1.588	0.112
2d	10.33	0.035*	274.52	261.67	288.17	277.07	235.25	-0.414	0.679
2e	10.903	0.028*	261.13	265.77	302.46	283.50	239.00	-0.608	0.543
2f	4.261	0.372	272.74	265.59	276.15	277.73	243.68	-0.577	0.564
*significant at 5% level, **significant at 1% level									

### 7.4.3 Accountability within SIRC

Table 7.7 presents the results to address the issue, about to whom SIRC are held accountable. The constituents proposed in the questionnaire were based on the literature (e.g. Siraj, 2012; Tooley *et al.*, 2010; Coy *et al.*,1997).

Table 7.7: Descriptive statistics for accountability to whom

Accountability to whom	Internal					External				
	Mean	Median	Skewness	Kurtosis	Rank	Mean	Median	Skewness	Kurtosis	Rank
3a. King or Sultan and Board of Directors of SIRC	4.05	4.00	-0.746	-0.046	1	4.02	4.00	-0.748	0.421	4
3b. State governments	4.03	4.00	-0.589	0.013	2	4.10	4.00	-0.758	0.504	2
3c. Service recipients and local citizens	3.94	4.00	-0.407	-0.115	3	4.03	4.00	-0.159	-1.220	3
3d. Overseeing bodies	3.82	4.00	-0.152	-0.439	6	3.96	4.00	-0.365	-0.425	5
3e. Fund providers and contributors	3.94	4.00	-0.517	-0.257	3	4.14	4.00	-0.769	0.252	1
3f. Creditors and investors	3.84	4.00	-0.171	-0.865	5	3.90	4.00	-0.560	0.146	6

SIRC themselves ranked the King, and the Board of Directors as the first (mean=4.01) whereas external groups strongly agreed that the fund providers were the first (mean=4.14). This result signifies that for SIRC, accountability to a higher authority took precedence over other stakeholders while external groups thought that SIRC should be accountable to those who provide the funds.

On the other hand, both of them agreed to rank the state government as second, for SIRC are established under a state enactment. The public/local citizens were seen by both SIRC and external stakeholders (mean=3.94 and 4.03) as the third but SIRC agreed to rank funders as the third. This is probably due to the fact that the funders pay *zakat* (alms), fulfilling the Islamic obligation, and SIRC believe that they are trusted by the funders. The external groups only considered SIRC to be accountable to the King



and the BOD was their fourth ranking (mean=4.02). They argued that SIRC should be held accountable to the creditors as the last (mean=3.90) whereas SIRC ranked creditors (mean=3.84) as the fifth. SIRC ranked overseeing bodies as the lowest (mean=3.82); this was perhaps because of the limited powers of the overseeing bodies since they are regulated by State legislation, which also prioritizes *Shariah*<sup>83</sup>. External stakeholders viewed the overseeing bodies as the second last ranking.

However, the MW test (see Table 7.8) showed that there was no significant difference between internal and external groups except for funders (p-value=0.02). This shows that there was a noticeable discrepancy in relation to funders responding to the SIRC's accountability to whom'. This is consistent with the concept of a principal-agency, as raised by the agency theory.

**Table 7.8: Mean differences of responses by locality and groups of stakeholders**

Accountability to whom	chi-square	p-value	Mean Rank (KW Test)					MW Test	
			Central	North	East Coast	South	East of Msia	z-value	p-value
3a. King or Sultan and Board of Directors of SIRC	15.08	0.005**	274.26	274.4	292.04	280.5	219.12	-0.554	0.58
3b. State governments	14.537	0.006**	271.73	275.6	294.38	279.7	221.1	-0.866	0.387
3c. Service recipients and local citizens	5.097	0.277	268.68	263.2	296.88	249.7	256.77	-0.963	0.336
3d. Overseeing bodies	16.475	0.002**	284.83	258.7	292.19	272.6	220.24	-1.92	0.055
3e. Fund providers and contributors	14.892	0.005**	274.95	275.3	296.86	270	220.9	-2.288	0.022*
3f. Creditors and investors	3.932	0.415	264.61	269.4	284.69	279.7	246.26	-0.919	0.358

\*significant at 5% level, \*\*significant at 1% level

In the majority of the items, as shown in the KW test (see Table 7.8) with two exceptions, recipients and creditors were statistically significant. This implies that the localities of the respondents made a significant difference between SIRC and external stakeholders in the claim that SICRs are

<sup>83</sup> When auditing is performed by the National Audit Department, if any conflict arises in the auditing process, *Shariah* has priority over other laws in that the *Shariah* committee is responsible for dealing with *Shariah*-related matters such as *zakat* distribution, usage of *zakat* and *waqaf* funds.

accountable to the Board of Directors (BOD), state government, overseeing bodies and funders with p-values=0.01, 0.01, 0.00 and 0.01 respectively. Stakeholders who live on the East Coast were more likely to agree with these four constituents, possibly due to their power. As posited in the stakeholder theory, the more advantaged stakeholders could easily influence and be influenced in comparison to the disadvantaged ones.

Another accountability issue in SIRC is why it is required, and how SIRC themselves and external stakeholders understand the reasons for it being held within SIRC. Four types of accountability, as posited by Stewart (1984), were presented to the participants to elicit their perspectives on a five-point scale. Tables 7.9 shows a level of agreement with the stated accountability purpose, as suggested in the literature.

**Table 7.9: Descriptive statistics for 'accountability for what'**

Accountability for what	Internal					External				
	Mean	Median	Skewness	Kurtosis	Rank	Mean	Median	Skewness	Kurtosis	Rank
4a. Accountability for probity	4.21	4.00	-0.652	-0.402	2	4.31	4.00	-1.147	1.629	1
4b. Process and procedural accountability	4.17	4.00	-0.455	-0.759	3	4.10	4.00	-0.668	0.284	4
4c. Performance and programme accountability	4.21	4.00	-0.609	-0.182	1	4.17	4.00	-0.713	0.229	3
4d. Policy accountability	4.14	4.00	-0.537	-0.449	4	4.18	4.00	-0.679	0.144	2

Performance accountability (mean=4.21) was ranked as the most agreeable for the SIRC whereas the external stakeholders viewed accountability for probity (mean=4.31) as the priority. Probity accountability was perceived by SIRC as the second ranking (mean=4.18). Performance reporting might be pertinent to SIRC, as they strongly agreed that they are accountable for the performance. However, there is a debatable issue here as to how performance is measured, given the uniqueness of the nature of SIRC, which were established within an Islamic public service setting. The

external stakeholders, on the other hand, are extremely concerned with probity as they realize that regulations must be strictly followed.

Policy accountability was the least agreed by SIRC whereas the external stakeholders viewed it as their second choice. It was believed that SIRC have flexibility within the context of managing Muslim revenue, providing it is consistent with *Shariah*. Thus, they prioritise *Shariah* as their main reference over any lay policies. The external stakeholders, however, understand that the policy to be followed must be consistent with their first choice, namely, probity. External stakeholders put the process of accountability (mean=4.14) as their last ranking, which emphasises the management aspect whereas SIRC were quite concerned about the process of accountability (mean=4.17) as they agreed it should be their second last ranking. Apart from the level of agreement ranking, the means between SIRC and external stakeholders were approximately similar to each other, ranging from 4.10-4.31.

For this reason, as shown in Table 7.10, the MW test showed that there was no significant difference between respondents in the SIRC and external stakeholders, regarding the purpose of accountability within SIRC, as described by Stewart (1994).

Table 7.10: Mean differences of responses by localisation and groups of stakeholders

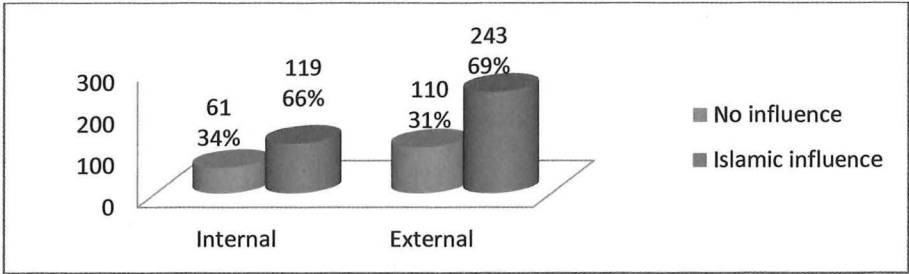
Accountability for what	chi-square	p-value	Mean Rank (KW Test)					MW Test	
			Central	North	East Coast	South	East of Msia	z-value	p-value
4a. Accountability for probity	10.540	0.032*	281.86	256.57	289.56	267.12	233.18	-1.603	0.109
4b. Process and procedural accountability	20.178	0.000**	283.41	266.24	290.09	280.13	212.34	-0.773	0.439
4c. Performance and programme accountability	11.064	0.026*	283.17	263.66	289.07	258.24	231.44	-0.341	0.733
4d. Policy accountability	25.228	0.000**	291.47	264.63	288.66	271.05	207.52	-0.592	0.554
*significant at 5% level, **significant at 1% level									

A KW test, however, found there were significant differences between the opinions of the SIRC and external groups concerning the whole purpose of accountability according to their localities. Respondents who live on the east Coast were more likely to agree with accountability for probity (p-value=0.03), procedural reasons (p-value=0.00) and performance (p-value=0.03) whereas policy accountability (p-value=0.00) was more likely to be agreed by stakeholders in the Central region (see Table 6.9). This is possibly because people in the Central region are more aware of accountability and its implications (Abdul Rahman and Goddard, 1998) and the federal state itself has more regulated reporting (Bakar and Ismail (2011). Therefore, enforcement might influence the implementation (Dhanani and Connolly, 2012; Hope, 2003).

#### **7.4.4 The influence of Islam on disclosure**

There were two open-ended questions for participants about the influence of Islamic thought on the reporting: a) Does Islamic thought influence the information expected to be disclosed in the annual report of SIRC. If yes, in what way? and b) Is there any difference between the disclosure information in the SIRC's annual reports and that from other government entities. If so, in what particular aspect? Figure 7.8 provides the results from the first question.

Figure 7.8: Islamic influence on the content of SIRC’s reporting



Overall, 68% (362) agreed that Islamic thought would influence the content of SIRC’s annual reports, derived from the responses of the internal 33% (119) and external 67% (243) stakeholders. Of the internal stakeholders, 66% agreed with the notion whereas 34% did not. This proportion is considerably lower than that of the external stakeholders regarding Islamic influence, which accounted for 69% and 31% respectively. An analysis according to the educational level of the respondents was made to see whether Islamic thought had influenced the content of this reporting, in Table 7.11.

Table 7.11: Islamic influence on SIRC’s reporting by education levels

Levels of education	Yes		No		Total	
High school and below	60	57%	45	43%	105	20%
Diploma	35	63%	21	38%	56	11%
First Degree	183	68%	86	32%	269	50%
Masters	60	82%	13	18%	73	14%
PhD	24	80%	6	20%	30	6%
Total	362	68%	171	32%	533	%

Of the respondents who agreed about the Islamic influence on the SIRC’s reporting, 267 (74%) of them had at least a First Degree (including a post-graduate degree), yet 105 (61%) disagreed with the proposition. This finding has to be taken with caution possibly because of different interpretations of the Islamic influence on the content of SIRC reporting.

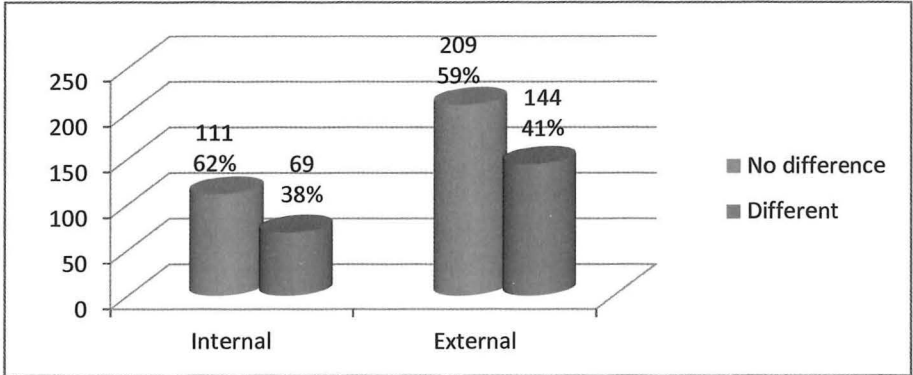
For instance, of the 362 agreed respondents, 192 (53%) were not sure what the influence would be, and only 170 (47%) specified factors influencing the reporting content, demonstrated in the next stage of this research through interviews (see Chapter 10). The answers provided were classified into four themes, as shown in Table 7.12.

Table 7.12: Factors influencing the content of SIRC’s reporting

Factors	N	%
Follow Shariah through fatwa	85	0.35
Accountability to God and humans	32	0.13
Trust, honest, truth, reliability	70	0.29
Transparency	57	0.23

Table 7.12 summarises the Islamic thought that influences the content of SIRC’sannual reports. A considerable number of respondents answered more than one point. The table therefore shows the frequency of the given points. More than one third (85) of the respondents mentioned that *Shariah* should be followed in the reporting. This is because SIRC activities and operations are based on *Shariah*, which may characterize the content of the reporting. They expected the reports to be trustworthy (29%), and transparent (23%) and able to promote accountability to God and others (13%). A further question was asked to indicate whether SIRC annual reports should be different from those of other governments. Figure 7.9 shows the results.

Figure 7.9: Difference of SIRC’s reporting from that of other governmental entities



Forty percent (213) of the respondents agreed that SIRC reporting should be different from that of other governmental entities; this consists of internal 38% (69) and external 41% (144) stakeholders. Only 38% (69) of the SIRC’smembers agreed that there was a difference in SIRC reporting whereas 62% (111) did not agree. This low proportion could be from their observations of the current practices among SIRC. However, such responses must be interpreted carefully to be certain about the extent of intended reporting. As for the external stakeholders, 41% (144) of them agreed with the difference whereas 59% (209) did not. Their responses were further analysed according to the academic qualifications of the respondents, as shown in Table 7.13.

Table 7:13: Differences in SIRC’s annual reports from other governmental entities

Levels of education	Yes		No		Total	
High school and below	41	39%	64	61%	105	20%
Diploma	23	41%	33	59%	56	11%
First Degree	95	35%	174	65%	269	50%
Master’s	37	51%	36	49%	73	14%
PhD	17	57%	13	43%	30	6%
Total	213	40%	320	60%	533	100%

It was found that 40% (213) agreed with the statement and 70% (149) of them had at least a First Degree, similar to the previous result. This implies that educated participants were more likely to be knowledgeable about the reporting and Islamic influence under the public accountability umbrella. As such, it shows they are aware of the right to information but also take the Islamic content into consideration. Again, 52% of them did not specify any difference between SIRC reporting from other entities. Therefore, the influence of Islam on the content of reporting was investigated in this study through interviews (see Chapter 9), as Khaled and Nodel (2008) and Lindkvist and Llewellyn (2003) assert that religion might influence an individual's behaviour.

#### **7.4.5 Disclosure of information**

As this study focuses on the disclosure of information, an analysis was conducted thoroughly to ensure robustness. Similar to the previous one, results were analysed according to internal and external stakeholders, and then sub-grouped into other categories to understand the different needs for information of different users. Internal stakeholders consist of top officials, executives and support staff whereas external stakeholders comprise the public, policy-makers and creditors. This is consistent with the stakeholder theory (see Section 4.3.2).

The fifty-seven self-developed disclosure items which were tested in the questionnaire were sub-grouped into five categories, namely, corporate (7), strategic (5), financial performance (9), non-financial performance (8) and financial statement disclosure (28), as shown in Table 7.14.



Table 7:14: Descriptive statistics and means according to category of information

No.	Information category	Min	Max	SD	Mean scores			p-value
					Internal	External	Both	
1	Corporate information (7)	1.29	5.00	0.65	4.01	4.03	4.02	0.765
2	Strategic information (5)	1.00	5.00	0.62	4.16	4.24	4.21	0.116
3	Financial performance (9)	2.00	5.00	0.60	4.12	4.20	4.17	0.268
4	Non-financial performance (8)	1.88	5.00	0.61	4.06	4.16	4.13	0.095
5	Financial statements (28)	2.64	5.00	0.58	4.19	4.23	4.22	0.686
Overall mean		2.74	5.00	0.52	4.13	4.19	4.17	0.456

\*Numbers in brackets are the number of disclosure items for each category of information.

\*\*A mean score of 1 indicates the disclosure item was perceived as not important and should not be disclosed whereas score 2=less important, 3=quite important, 4=very important, 5 extremely important and should be disclosed in the SIRC’s annual reports.

Based on Table 7.14, both stakeholder groups perceived each information category to be very important (mean=4.17). External stakeholders (mean=4.19) were more likely to expect more information than internal stakeholders (mean=4.13). But, statistically, there were no significant differences between the internal and external stakeholders (p-value=0.456) and the mean scores were similar, ranging from 4.01-4.24.

Each information category was further analysed according to sub-stakeholder groups, to ensure an in-depth and robust analysis. Specifically, this was to identify the level of importance for each disclosure item as perceived by the various groups of stakeholders. Similar to the previous analysis, the mean scores for each sub-group of stakeholders were computed and a p-value for each item was calculated, to examine whether there was any statistically significant difference between the means. Two types of non-parametric tests were used. Firstly, a Mann-Whitney (M-W) test examined significant differences between the internal and external stakeholder groups. Secondly, a Kruskal-Wallis (K-W) test with stakeholder sub-group of six types of stakeholder was carried out.

Starting from the first category, corporate information, Table 7.15 shows its mean scores and variances.

**Table 7:15: Mean scores and variance analysis for corporate information**

No.	Disclosure items	Mean			M-W p-value	Mean						K-W p-value
		Int	Ext	Both		Top	Mgt	Sup	Reg	Pub	Cred	
1.1	Establishment and operation	4.24	4.27	4.26	0.668	4.32	4.28	4.05	4.23	4.29	4.26	0.46
1.2	Objectives	4.03	4.11	4.08	0.403	4.28	4.00	3.72	4.18	4.10	4.05	0.01**
1.3	Organizational structure	4.06	4.06	4.06	0.893	4.25	4.05	3.77	4.18	4.04	3.98	0.05*
1.4	Board of Directors	4.11	4.06	4.08	0.617	4.30	4.02	3.97	4.14	4.04	4.07	0.30
1.5	Ethical operational policies	4.13	4.21	4.18	0.251	4.25	4.15	3.90	4.20	4.22	4.16	0.26
1.6	Personnel	3.68	3.71	3.70	0.685	3.75	3.62	3.72	3.65	3.73	3.65	0.87
1.7	Personnel development	3.79	3.76	3.77	0.934	3.85	3.69	3.90	3.81	3.75	3.72	0.66
<b>Sub-score</b>		4.01	4.03	4.02	0.765	4.14	3.97	3.86	4.05	4.02	3.98	0.36

Int=Internal, Ext=External, Top=Top officials, Mgt=Management, Sup=Support staff, Reg=Regulators, Pub=Public, Cred=Creditors  
 \*significant at 5%, \*\*significant at 1%

On average, both groups of stakeholders regarded item 1.1 (mean=4.26) as the most important corporate information. External stakeholders (mean=4.03) were slightly more concerned with corporate information than internal (mean=4.01) stakeholders. However, this was a slight difference and statistically was insignificant (p-value=0.77). All stakeholders regarded items 1.6 and 1.7 (mean=3.70 and 3.77) as quite important (similar to Hooks *et al.*, 2012), while other items were regarded as very important. However, amongst the sub-stakeholders, most of the items were viewed as quite important by support staff, except for item 1.1. The sub-group of creditors agreed with them with regard to items 1.3, 1.6 and 1.7. Although the sub-group top officials produced the highest mean (4.14) with regard to the importance of corporate information while support staff produced the lowest (mean=3.86), there were no statistically significant differences for the majority of disclosure items across sub-stakeholders except for items 1.2 and 1.3. This supports the consensus that different

users may have varying information needs (Belkoui, 2004). For example, support staff regarded only one item of corporate information as being very important while the rest of the six items were quite important. By contrast, creditors viewed three of the items as being quite important while the rest were viewed as being very important. The second category was strategic information, whose statistics are shown in Table 7.16.

**Table 7:16: Mean Scores and variance analysis for strategic information**

No.	Disclosure items	Mean			M-W p-value	Mean						K-W p-value
		Int	Ext	Both		Top	Mgt	Sup	Reg	Pub	Cred	
2.1	Chairman’s report	3.93	3.94	3.94	0.569	4.20	3.85	3.67	4.04	3.94	3.79	0.021*
2.2	Performance and achievement	4.39	4.40	4.40	0.884	4.45	4.36	4.36	4.42	4.42	4.26	0.848
2.3	Summary facts and figures	4.21	4.35	4.30	0.019*	4.32	4.14	4.18	4.32	4.36	4.33	0.190
2.4	Government borrowing/grants	3.97	4.15	4.09	0.015*	4.17	3.88	3.87	4.16	4.19	3.86	0.006*
2.5	Forward-looking information	4.28	4.35	4.33	0.392	4.42	4.23	4.18	4.38	4.38	4.14	0.194
Sub-score for strategic info		4.16	4.24	4.21	0.116	4.31	4.09	4.05	4.26	4.26	4.07	0.035*

\*significant at 5%

Similar to the previous category, external stakeholders (mean=4.24) were more interested in strategic information than internal stakeholders (mean=4.16). Item 2.2 was regarded as the most important information item overall (mean=4.40), and the one which top officials ranked as the most important (mean=4.45). This implies that they were very interested in the performance of SIRC. Despite its high overall weighted importance, most stakeholders rated item 2.1 as quite important (mean=3.67-3.94) except for top officials (mean=4.20) and regulators (4.04). Both top officials and regulators are powerful stakeholders, compared to other stakeholders, both groups perceived the chairman’s statement to be very important in the SIRC annual reports and felt that the chairman’s achievement should be seen in the chairman’s report. Item 2.4 was another quite important item that was ranked by internal stakeholders (management and support

staff) and external stakeholders (creditors), probably because government grants are not very relevant to them, since the money is entrusted to the SIRC; however, top officials, regulators and the public were more interested. This may be a sign of how efficiently the SIRC manage such funds. Other items of strategic information were regarded as very important.

There were statistically significant differences between internal and external groups in items 2.3 and 2.4. The relevance of both items influenced the respondents in their ratings. For instance, item 2.3 (mean=4.35) was viewed as being very important by the external stakeholders compared with the internal stakeholders (mean=4.21), especially the public (mean=4.36), indicating that they would like to be provided with a summary of all the achievements of SIRC. This might be better understood by the public but would entail a lot of additional work for the SIRC. Due to the obvious different needs, items 2.1 and 2.4 showed the only statistically significant differences across the sub-stakeholder groups for this category. Overall, strategic information was the only noteworthy information category among other categories of information. The results suggest that powerful and less advantaged stakeholders have different expectations of information, as suggested in stakeholder theory. This suggests the need for more studies focusing on the information expectation gaps to fill such gaps more satisfactorily (Zainon *et al.*, 2012, Hooks *et al.*, 2012; Zainon *et al.*, 2011). The third category of disclosure item is financial performance (see Table 7.17).

**Table 7:17: Mean scores and variance analysis for financial performance**

No.	Disclosure items	Mean			M-W p-value	Mean						K-W p-value
		Int	Ext	Both		Top	Mgt	Supp	Reg	Pub	Cred	
3.1	Financial review	4.38	4.41	4.40	0.878	4.47	4.35	4.31	4.43	4.42	4.30	0.680
3.2	Investment	4.09	4.12	4.11	0.835	4.30	4.06	3.82	4.11	4.16	3.93	0.03*
3.3	Actual to budget comparison	4.19	4.23	4.22	0.866	4.37	4.16	3.97	4.43	4.20	4.02	0.02*
3.4	Financial performance ratios	4.20	4.20	4.20	0.922	4.33	4.19	4.03	4.27	4.20	4.09	0.190
3.5	Administration to total expenses	4.14	4.20	4.18	0.385	4.20	4.11	4.13	4.26	4.22	4.02	0.450
3.6	Programme expenses/total expenses	4.13	4.20	4.17	0.363	4.12	4.10	4.23	4.14	4.23	4.12	0.710
3.7	Net rental income and	3.87	4.06	3.99	0.01**	3.97	3.83	3.79	4.07	4.05	4.12	0.070
3.8	Investment income/average	3.95	4.10	4.05	0.04*	4.12	3.88	3.85	4.11	4.11	4.00	0.090
3.9	Expenditure by activities/income by	4.11	4.25	4.20	0.05*	4.13	4.07	4.13	4.27	4.25	4.19	0.470
Sub-scores for financial performance		4.12	4.20	4.17	0.268	4.22	4.08	4.03	4.23	4.20	4.09	0.150

\*significant at 5%, \*\*significant at 1%

In general, all financial performance items were ranked as very important (mean=4.17) except for item 3.7 (mean=3.99), which was regarded as being quite important but negligibly. External stakeholders (mean=4.20) expected more financial performance information than internal (mean=4.12) stakeholders, who also considered the internal perceived items 3.7 and 3.8 to be quite important. Both items that were ranked as quite important were efficient measurements of income, to which external stakeholders seemed to attach more importance (mean=4.06 and 4.10); however, this was less important to the SIRC (mean=3.87 and 3.95). Statistically, there were significant differences in three items of efficiency measurements (items 3.7, 3.8 and 3.9) between internal and external stakeholders. This indicates that external stakeholders were more interested in financial performance in terms of efficiency ratios in comparison with SIRC members. Probably, this includes an interpretation of the ratios so as to provide meaningful information to the various sub-groups of stakeholders (Sulaiman *et al.*, 2009).

The highest mean across sub-stakeholders that was ranked by top officials (mean=4.47) was item 3.1, which showed the financial review to be the most important item of financial performance. However, individual groups, particularly support staff, viewed almost half of them as quite important, such as items 3.2, 3.3, 3.7 and 3.8. Top officials regarded only item 3.7 as quite important; management ranked item 3.8 similarly. This shows there was a conflict of information expectation among the SIRC members which might influence their reporting in the annual reports. This indicates that lower levels of management were less likely to be aware of the importance of performance reporting. On another issue, there were significant differences in items 3.2 and 3.3 across the sub-stakeholder groups. Both investment and actual-to-budget comparisons were seen by support staff as being not very important and the former item was similarly viewed by creditors, who preferred to know about SIRC solvency rather than their investments.

The fourth category was non-financial performance and its results are reported in Table 7.18.

**Table 7:18: Mean Scores and variance analysis for non-financial performance**

No. Disclosure items	Mean			M-W p-value	Mean						K-W p-value
	Int	Ext	Both		Top	Mgt	Sup	Reg	Pub	Cred	
4.1 Performance target	4.03	4.18	4.13	0.068	4.18	4.06	3.74	4.27	4.15	4.16	0.028*
4.2 Input	4.01	4.12	4.08	0.141	4.05	3.98	4.03	4.15	4.08	4.26	0.439
4.3 Output	4.15	4.19	4.17	0.561	4.18	4.14	4.13	4.24	4.14	4.35	0.502
4.4 Outcome	4.06	4.17	4.13	0.091	4.17	4.07	3.85	4.34	4.11	4.21	0.022*
4.5 Efficiency	4.15	4.13	4.14	0.722	4.15	4.16	4.13	4.38	4.05	4.16	0.029*
4.6 Effectiveness	4.01	4.14	4.10	0.046*	4.13	3.94	3.95	4.22	4.12	4.14	0.214
4.7 Productivity measures	3.99	4.14	4.09	0.035*	4.08	3.95	3.92	4.26	4.14	3.98	0.120
4.8 Customer satisfaction measures	4.08	4.21	4.17	0.041*	4.22	4.00	4.03	4.11	4.22	4.35	0.132
<b>Sub-scores for non-financial</b>	<b>4.06</b>	<b>4.16</b>	<b>4.13</b>	<b>0.095</b>	<b>4.15</b>	<b>4.04</b>	<b>3.97</b>	<b>4.24</b>	<b>4.13</b>	<b>4.20</b>	<b>0.171</b>

\*significant at 5%

On average, both internal and external stakeholders regarded non-financial items as very important (mean=4.13). External (mean=4.16) stakeholders, compared to internal stakeholders (mean=4.0), were more likely to expect non-financial performance information. In particular, SIRC viewed item 4.7 (mean=3.99) as quite important. For a few items (effectiveness, productivity and customer satisfaction respectively) in performance reporting there were statistically significant differences between internal and external stakeholders.

In comparing information expectations across sub-stakeholders, support staff (mean=3.97) ranked most items as quite important and this included items 4.1, 4.4, 4.6 and 4.7. The management supported their view of items 4.6 and 4.7 in addition to item 4.2, whereas for creditors, it was item 4.7. This reveals that productivity measures were not favoured by support staff and management in SIRC and creditors. A lower awareness of the importance of productivity might influence the quality of services provided in SIRC, which should anyway be used as one of the performance indicators in SIRC to discharge their accountability. SIRC management also seems to have been less concerned with the reporting of the resources used, and this might lead to a closer scrutiny of the fund management by the local media.

Regulators, on the other hand, rated non-financial performance the highest (mean=4.24), which was roughly similar to top officials and creditors (mean=4.15-4.20). Both are powerful stakeholders who want to know about information such as the effectiveness, efficiency and productivity of

SIRC for improvement. Concerning the demand for such information, there were statistically significant differences between internal and external stakeholders for items 4.6, 4.7 and 4.8, whereas within the six stakeholder groups, there were significant differences for items 4.1, 4.4 and 4.5.

There were statistically significant differences on items 4.1, 4.4 and 4.5 (performance target, outcome and efficiency) between internal and external stakeholders. It is quite challenging for SIRC to decide on the appropriate reporting of non-financial performance as various stakeholders have different expectations. However, they attach great importance to the reporting of non-financial performance for discharging accountability of the reporting entity (see Yasmin *et al.*, 2014; Connolly and Hyndman, 2013; Dhanani and Connolly, 2012).

The last category was financial statements, consisting of 28 items, as shown in Table 7.19.



Table 7:19: Mean Scores and variance analysis for financial statements

No.	Disclosure items	Mean			M-W p-value	Mean						K-W p-value
		Int	Ext	Both		Top	Mgt	Sup	Reg	Pub	Cred	
5.1	Balance Sheet	4.44	4.44	4.44	0.769	4.43	4.49	4.36	4.46	4.44	4.44	0.808
5.2	Total Non-current assets	4.01	4.14	4.10	0.060	4.15	3.95	3.90	4.15	4.14	4.19	0.209
5.3	Long-term investments	4.15	4.21	4.19	0.465	4.37	4.11	3.90	4.18	4.24	4.09	0.048*
5.4	Long-term debtors	4.02	4.12	4.08	0.167	4.20	3.99	3.79	4.12	4.11	4.19	0.101
5.5	Current assets	4.32	4.32	4.32	0.770	4.45	4.26	4.23	4.34	4.29	4.42	0.379
5.6	Current liabilities	4.32	4.29	4.30	0.838	4.43	4.30	4.21	4.34	4.29	4.23	0.613
5.7	Long-term liabilities	4.18	4.17	4.17	0.995	4.35	4.17	3.92	4.19	4.19	4.02	0.135
5.8	Deferred liabilities	3.99	4.08	4.05	0.237	4.13	4.04	3.67	4.15	4.10	3.81	0.038*
5.9	Deferred credits from government	3.96	4.06	4.02	0.252	4.13	4.01	3.59	4.03	4.08	3.98	0.036*
5.10	Reserves	4.13	4.21	4.18	0.336	4.27	4.05	4.08	4.07	4.23	4.35	0.113
5.11	Income Statement	4.38	4.36	4.37	0.729	4.42	4.44	4.21	4.31	4.39	4.26	0.291
5.12	Revenue by source of funds	4.23	4.26	4.25	0.781	4.33	4.23	4.08	4.16	4.28	4.33	0.334
5.13	Revenue by services rendered	4.22	4.22	4.22	0.937	4.23	4.28	4.08	4.19	4.21	4.37	0.501
5.14	Other incoming revenue	4.07	4.10	4.09	0.662	4.17	4.06	3.95	4.04	4.12	4.09	0.701
5.15	Total revenue	4.27	4.34	4.32	0.435	4.38	4.28	4.08	4.30	4.35	4.35	0.347
5.16	Expenditure by services	4.16	4.23	4.20	0.290	4.20	4.15	4.13	4.18	4.24	4.26	0.852
5.17	Expenditure by functions	4.19	4.20	4.20	0.867	4.17	4.23	4.15	4.14	4.22	4.21	0.890
5.18	Administration costs	4.12	4.16	4.15	0.520	4.20	4.17	3.90	4.04	4.20	4.19	0.203
5.19	Total expenditure	4.32	4.36	4.34	0.521	4.32	4.35	4.26	4.32	4.36	4.40	0.947
5.20	Other recognized gains/losses	4.15	4.16	4.16	0.937	4.25	4.12	4.05	4.19	4.17	4.05	0.548
5.21	Surplus/deficit	4.22	4.26	4.25	0.569	4.33	4.17	4.13	4.36	4.23	4.23	0.437
5.22	Total funds brought forward (bf)	4.07	4.19	4.15	0.164	4.25	4.09	3.77	4.18	4.21	4.09	0.036*
5.23	Total funds carried forward (c/f)	4.11	4.18	4.16	0.373	4.27	4.09	3.90	4.18	4.21	4.05	0.141
5.24	Statement of Assets and Liabilities	4.13	4.15	4.14	0.829	4.30	4.15	3.85	4.16	4.17	4.00	0.161
5.25	Statement of cash flows	4.36	4.35	4.35	0.838	4.40	4.36	4.28	4.36	4.35	4.33	0.961
5.26	Notes to the accounts	4.16	4.25	4.22	0.233	4.23	4.15	4.08	4.26	4.24	4.30	0.608
5.27	Audit Certificate	4.27	4.35	4.33	0.297	4.37	4.28	4.10	4.34	4.40	4.14	0.137
5.28	Auditor index rating	4.23	4.30	4.28	0.578	4.33	4.21	4.13	4.38	4.28	4.23	0.635
Sub-scores for financial statements		4.19	4.23	4.22	0.686	4.29	4.19	4.03	4.22	4.24	4.20	0.297
*significant at 5%												

In terms of the overall mean, external stakeholders' mean (4.23) was higher than internal stakeholders' (mean=4.19), especially for the public (mean=4.24); however, this was a slightly lower mean when compared to top officials (mean=4.29). Probably, the public are interested in knowing about the collection and spending of funds by SIRC to a similar extent as top officials as this represents their accountability to the public at large. A majority of the items were regarded as being very important to both internal (except deferred liabilities and government credits) and external stakeholders and in fact there was no significant difference for all items. However, surprisingly SIRC management considered items 5.2 and 5.4 as

quite important, similar to support staff. Besides that, the support staff also perceived nine items to be quite important, namely, 5.3, 5.7, 5.8, 5.9, 5.14, 5.18, 5.22-5.24. Their lack of knowledge about financial matters might have influenced such ratings. Creditors rated items 5.8 and 5.9 as quite important because they possibly wanted to know about the SIRC's ability to pay their debts rather than the SIRC's deferred liabilities. However, statistically, only four items in the financial statements were significantly different for the sub-stakeholders, which were items 5.3, 5.8, 5.9 and 5.22.

Based on the results provided in Tables 7.16-7.20, the majority of the disclosure items (52 items, 91%) were regarded as very important (means=4.00-4.44) whereas the remaining ones (5 items, 9%) were viewed as quite important. The five quite important items (mean 3.69-3.98) were: deferred government credit, net income and expenses to rental income, the chairman's report, personnel development, and personnel information. The results of an M-W test of weighted importance for differences between pairs of stakeholder groups are presented in Table 7.20.

Table 7.20: M-W test results showing mean differences among pairs of sub-stakeholder groups

	Top officials	Management	Support staff	Regulators	Creditors	Public
Top officials	1					
Management	0.169	1				
Support staff	0.018*	0.234	1			
Regulators	0.445	0.443	0.073	1		
Creditors	0.311	0.402	0.030*	0.957	1	
Public	0.203	0.998	0.32	0.44	0.435	1

\*significant at 5%

Statistically, there were two significant differences for all disclosure items; these were between both the support staff including top officials and support staff as well as creditors. This implies that within the internal stakeholders, fewer powerful (support staff) and more powerful (top officials) stakeholders had significantly different perspectives on the expectation of disclosure information from the SIRC. Similarly, there were significant differences between internal and external stakeholders, in this case between support staff and creditors. This was probably due to these groups' different interests in certain kinds of financial information; for example, creditors were more interested in items that gave information on solvency. To sum up, the ranked differences and the similarities, according to the category in terms of the number of disclosure items, can be seen in Table 7.21.

**Table 7.21: Ranking of mean differences and similarities according to the information category**

Category of information	N	No. of items showing significant difference		Differences		Similarities	
		Internal vs External	Sub-stakeholders	N	%	N	%
Non-financial performance	8	3	3	6	75	2	25
Financial performance	9	3	2	5	56	4	44
Financial statements	28	0	4	4	14	24	86
Strategic information	5	1.5	1.5	3	60	2	40
Corporate information	7	0	2	2	29	5	71
Total	57			20		37	

Non-financial performance was the category with the most significant differences between the stakeholders' views (6 items, 75%), whereas the category with the least was corporate information (2 items, 29%). This implies that typical stakeholders were requesting different information beyond financial matters for performance evaluation rather than just corporate information. Probably, they wanted to know the efficiency of the

trusted funds, rather than SIRC corporate information, which had already been made available and which the public was aware of. The financial statements were more likely to be considered similar for the stakeholders as there are specific guidelines. Other categories of information were more likely to be comparable to each other. Therefore, the quality of comprehensive annual reports is a useful subject to explore, discovered in this study (see Appendix C and D).

In summary, the expected information can be explained according to the category of information, as presented in Table 7.22.

**Table 7:22: Descriptive statistics by category of information**

Information Category	Min	Max	SD	Mean	Internal			External			p-value
					Top	Mgt	Sup	Pub	Reg	Cred	
1.0 Corporate information	1.29	5.00	0.65	4.20	4.14	3.97	3.86	4.02	4.05	3.98	0.355
2.0 Strategic information	1.00	5.00	0.62	4.21	4.31	4.09	4.05	4.26	4.26	4.07	0.035*
3.0 Financial performance	2.00	5.00	0.60	4.17	4.22	4.08	4.03	4.20	4.23	4.09	0.140
4.0 Non-financial performance	1.88	5.00	0.61	4.13	4.15	4.04	3.97	4.13	4.24	4.20	0.167
5.0 Financial statements	2.64	5.00	0.58	4.22	4.29	4.14	4.03	4.24	4.22	4.20	0.323
Mean by stakeholder groups					4.13			4.19			

\*Score mean of 1 indicates the disclosure item is not important and should not be disclosed whereas score 2=less important, 3=quite important, 4=very important, 5 extremely important and should be disclosed in the SIRC annual reports.  
 \*\*significant at 5%

Overall, all categories of information were perceived as important to every stakeholder (mean=4.13-4.22). Only the strategic category of information was statistically significant in its difference within the sub-stakeholder groups (p-value=0.035). This includes the chairman’s statement, performance and achievement, a summary of facts and figures, government financial assistance and a forward-looking plan.

Nevertheless, looking at the sub-disclosure items for each category of disclosure has led to different results, as shown in Table 7.23. There were statistically significant differences across sub-stakeholders in thirteen

disclosure items for each of the categories, namely: corporate information (2), purpose and structure of organization: strategic information (2), chairman's report and government grants: financial performance (2), investment and actual-to-budget comparison: non-financial performance (3), performance target and objectives, outcome and efficiency: financial statements (4), long-term investment, deferred liabilities, deferred credits and total fund brought forward (b/f).

This implies that for each of the categories, the six sub-stakeholders perceived the importance of disclosure differently, as posited by several disclosure theories. This is due to the fact that their interests vary: the upward or downward hierarchical accountability, accountability scopes: accountability for probity and legality, procedures, performance and policy and individual perspectives: felt and imposed accountability (see Section 2.2.3).

Table 7.23 also presents the z-values results of comparison of the differences across the two groups of internal and external stakeholders and their mean scores, using the Mann-Whitney U test. There were statistically significant differences in eight items between internal and external stakeholders; these are: the summary of facts and figures, government grant/borrowing, three performance ratios (net rental income, investment income and expenditure by activities), effectiveness, productivity and customer satisfaction measures. Most of them were performance-related items except for two, the summary of facts and figures and government grant/borrowing.

Table 7:23: Descriptive statistics and variance for disclosure items by sub-stakeholders

No.	Disclosure items	Min	Max	SD	Mean	SIRCs			External			p-value	Z-value
						Top	Mgt	Supp	Reg	Pub	Cred		
1.1	Establishment and	1.00	5.00	0.74	4.26	4.32	4.28	4.05	4.23	4.29	4.26	0.464	-0.428
1.2	Purpose and objectives	1.00	5.00	0.77	4.08	4.28	4.00	3.72	4.18	4.10	4.05	0.014**	-0.836
1.3	Structure of organisation	2.00	5.00	0.80	4.06	4.25	4.05	3.77	4.18	4.04	3.98	0.048*	-0.135
1.4	Board of directors	1.00	5.00	0.82	4.08	4.30	4.02	3.97	4.14	4.04	4.07	0.304	-0.500
1.5	Ethical operational	1.00	5.00	0.85	4.18	4.25	4.15	3.90	4.20	4.22	4.16	0.257	-1.149
1.6	Personnel	1.00	5.00	0.90	3.70	3.75	3.62	3.72	3.65	3.73	3.65	0.874	-0.405
1.7	Personnel development	1.00	5.00	0.94	3.77	3.85	3.69	3.90	3.81	3.75	3.72	0.664	-0.083
2.1	Chairman report	1.00	5.00	0.89	3.94	4.20	3.85	3.67	4.04	3.94	3.79	0.021*	-0.570
2.2	Performance and	1.00	5.00	0.70	4.40	4.45	4.36	4.36	4.42	4.42	4.26	0.848	-0.146
2.3	Summary facts and figures	1.00	5.00	0.72	4.30	4.32	4.14	4.18	4.32	4.36	4.33	0.190	-2.337
2.4	Government grants	1.00	5.00	0.83	4.09	4.17	3.88	3.87	4.16	4.19	3.86	0.006**	-2.423
2.5	Forward looking	1.00	5.00	0.76	4.33	4.42	4.23	4.18	4.38	4.38	4.14	0.194	-0.857
3.1	Financial review	2.00	5.00	0.70	4.40	4.47	4.35	4.31	4.43	4.42	4.30	0.684	-0.154
3.2	Investment	2.00	5.00	0.77	4.11	4.30	4.06	3.82	4.11	4.16	3.93	0.027*	-0.208
3.3	Actual to budget	1.00	5.00	0.79	4.22	4.37	4.16	3.97	4.43	4.20	4.02	0.024*	-0.168
3.4	Financial performance	2.00	5.00	0.72	4.20	4.33	4.19	4.03	4.27	4.20	4.09	0.194	-0.098
3.5	Administration to total	2.00	5.00	0.75	4.18	4.20	4.11	4.13	4.26	4.22	4.02	0.450	-0.868
3.6	Program expenses/total	2.00	5.00	0.73	4.17	4.12	4.10	4.23	4.14	4.23	4.12	0.705	-0.911
3.7	Net rental income and	2.00	5.00	0.77	3.99	3.97	3.83	3.79	4.07	4.05	4.12	0.070	-2.818
3.8	Investment	2.00	5.00	0.77	4.05	4.12	3.88	3.85	4.11	4.11	4.00	0.088	-2.011
3.9	Expenditure by	2.00	5.00	0.73	4.20	4.13	4.07	4.13	4.27	4.25	4.19	0.471	-1.986
4.1	Performance target and	1.00	5.00	0.78	4.13	4.18	4.06	3.74	4.27	4.15	4.16	0.028*	-1.825
4.2	Input	1.00	5.00	0.75	4.08	4.05	3.98	4.03	4.15	4.08	4.26	0.439	-1.473
4.3	Output	2.00	5.00	0.70	4.17	4.18	4.14	4.13	4.24	4.14	4.35	0.502	-0.581
4.4	Outcome	2.00	5.00	0.74	4.13	4.17	4.07	3.85	4.34	4.11	4.21	0.022*	-1.690
4.5	Efficiency	1.00	5.00	0.74	4.14	4.15	4.16	4.13	4.38	4.05	4.16	0.029*	-0.356
4.6	Effectiveness	2.00	5.00	0.75	4.10	4.13	3.94	3.95	4.22	4.12	4.14	0.214	-1.997
4.7	Productivity measures	2.00	5.00	0.79	4.09	4.08	3.95	3.92	4.26	4.14	3.98	0.120	-2.107
4.8	Customers satisfaction	1.00	5.00	0.79	4.17	4.22	4.00	4.03	4.11	4.22	4.35	0.132	-2.041
5.1	Balance Sheet	2.00	5.00	0.71	4.44	4.43	4.49	4.36	4.46	4.44	4.44	0.808	-0.294
5.2	Total Non-current assets	2.00	5.00	0.77	4.10	4.15	3.95	3.90	4.15	4.14	4.19	0.209	-1.880
5.3	Long-term investments	2.00	5.00	0.81	4.19	4.37	4.11	3.90	4.18	4.24	4.09	0.048*	-0.731
5.4	Long-term debtors	1.00	5.00	0.87	4.08	4.20	3.99	3.79	4.12	4.11	4.19	0.101	-1.381
5.5	Current assets	1.00	5.00	0.73	4.32	4.45	4.26	4.23	4.34	4.29	4.42	0.379	-0.293
5.6	Current liabilities	1.00	5.00	0.74	4.30	4.43	4.30	4.21	4.34	4.29	4.23	0.613	-0.204
5.7	Long-term liabilities	1.00	5.00	0.78	4.17	4.35	4.17	3.92	4.19	4.19	4.02	0.135	-0.006
5.8	Deferred liabilities	1.00	5.00	0.85	4.05	4.13	4.04	3.67	4.15	4.10	3.81	0.038*	-1.182
5.9	Deferred credits from	1.00	5.00	0.90	4.02	4.13	4.01	3.59	4.03	4.08	3.98	0.036*	-1.146
5.10	Reserves	1.00	5.00	0.78	4.18	4.27	4.05	4.08	4.07	4.23	4.35	0.113	-0.961
5.11	Income Statement	2.00	5.00	0.73	4.37	4.42	4.44	4.21	4.31	4.39	4.26	0.291	-0.346
5.12	Revenue by source of	2.00	5.00	0.72	4.25	4.33	4.23	4.08	4.16	4.28	4.33	0.334	-0.278
5.13	Revenue by services	1.00	5.00	0.76	4.22	4.23	4.28	4.08	4.19	4.21	4.37	0.501	-0.079
5.14	Other incoming revenue	1.00	5.00	0.78	4.09	4.17	4.06	3.95	4.04	4.12	4.09	0.701	-0.437
5.15	Total revenue	2.00	5.00	0.74	4.32	4.38	4.28	4.08	4.30	4.35	4.35	0.347	-0.781
5.16	Expenditure by services	1.00	5.00	0.73	4.20	4.20	4.15	4.13	4.18	4.24	4.26	0.852	-1.058
5.17	Expenditure by functions	1.00	5.00	0.77	4.20	4.17	4.23	4.15	4.14	4.22	4.21	0.890	-0.167
5.18	Administration and	2.00	5.00	0.76	4.15	4.20	4.17	3.90	4.04	4.20	4.19	0.203	-0.644
5.19	Total expenditure	2.00	5.00	0.72	4.34	4.32	4.35	4.26	4.32	4.36	4.40	0.947	-0.643
5.20	Other recognised	1.00	5.00	0.76	4.16	4.25	4.12	4.05	4.19	4.17	4.05	0.548	-0.079
5.21	Surplus/deficit	1.00	5.00	0.74	4.25	4.33	4.17	4.13	4.36	4.23	4.23	0.437	-0.570
5.22	Total fund brought forward	1.00	5.00	0.79	4.15	4.25	4.09	3.77	4.18	4.21	4.09	0.036*	-1.391
5.23	Total fund carried forward	1.00	5.00	0.78	4.16	4.27	4.09	3.90	4.18	4.21	4.05	0.141	-0.891
5.24	Statement of Assets and	1.00	5.00	0.86	4.14	4.30	4.15	3.85	4.16	4.17	4.00	0.161	-0.216
5.25	Statement of cash flows	2.00	5.00	0.74	4.35	4.40	4.36	4.28	4.36	4.35	4.33	0.961	-0.204
5.26	Notes to the accounts	2.00	5.00	0.73	4.22	4.23	4.15	4.08	4.26	4.24	4.30	0.608	-1.192
5.27	Audit Certificate	2.00	5.00	0.75	4.33	4.37	4.28	4.10	4.34	4.40	4.14	0.137	-1.042
5.28	Auditor index rating	1.00	5.00	0.76	4.28	4.33	4.21	4.13	4.38	4.28	4.23	0.635	-0.556

\*significant at 5%

\*\*significant at 1%

Furthermore, the expectations of stakeholders were different in terms of performance; this needs to be investigated, along with the other two items that signify the efficiency of the SIRC in managing entrusted funds. Despite the significant differences between the weighted importance given to several disclosure items, the majority of items were perceived similarly across the stakeholders. This might facilitate the best practice of reporting

for SIRC and other related bodies. One might conclude that stakeholders are now very demanding about disclosure items (Hooks *et al.*, 2012) in relation to performance in general, beyond the financial one.

Finally, a disclosure index was developed based on the importance ranking of items that should be reported by SIRC (see Table 7.24).

The entire fifty-seven items proposed to the respondents were perceived as very important and should be disclosed in the SIRC annual reports (means 4.02-4.44). Of these, fifty-three items were marked as very important disclosure items and only four regarded as merely quite important, namely, net rental income and expenses to rental income, the chairman's report, personnel development and personnel information. The efficiency of rental income might be considered by the stakeholders for commercial purposes to generate income for SIRC, but they are more concerned about distribution of the entrusted funds (Wahid *et al.*, 2009). The chairman's statement generally supports the political agenda through portraying good leadership in SIRC, which is the main concern of the top officials rather than of all the stakeholders. Personnel matters are not essential to stakeholders because they would prefer to know about the performance of SIRC, rather than their management.

The different levels of importance for each of the disclosure items should be taken into account in evaluating the SIRC annual reports so as to identify whether the current reporting practices meet the expectations of stakeholders. The mean of responses, as presented in Table 7.24, will be used to evaluate the SIRC annual reports in the next chapter.

Table 7:24: Ranking of the importance level of disclosure items for SIRC

No.	Level of importance	Disclosure items	Category	Min	Max	SD	Mean
1	Very important	Balance Sheet	FS	2.00	5.00	0.71	4.44
2		Performance and achievement	SI	1.00	5.00	0.70	4.40
3		Financial review	FP	2.00	5.00	0.70	4.40
4		Income Statement	FS	2.00	5.00	0.73	4.37
5		Statement of cash flows	FS	2.00	5.00	0.74	4.35
6		Total expenditure	FS	2.00	5.00	0.72	4.34
7		Forward-looking information	SI	1.00	5.00	0.76	4.33
8		Audit Certificate	FS	2.00	5.00	0.75	4.33
9		Current assets	FS	1.00	5.00	0.73	4.32
10		Total revenue	FS	2.00	5.00	0.74	4.32
11		Summary facts and figures	SI	1.00	5.00	0.72	4.30
12		Current liabilities	FS	1.00	5.00	0.74	4.30
13		Auditor index rating	FS	1.00	5.00	0.76	4.28
14		Establishment and operation	CI	1.00	5.00	0.74	4.26
15		Revenue by source of funds	FS	2.00	5.00	0.72	4.25
16		Surplus/deficit	FS	1.00	5.00	0.74	4.25
17		Actual-to-budget comparison	FP	1.00	5.00	0.79	4.22
18		Revenue by services rendered	FS	1.00	5.00	0.76	4.22
19		Notes to the accounts	FS	2.00	5.00	0.73	4.22
20		Financial performance ratios	FP	2.00	5.00	0.72	4.20
21		Expenditure by activities/income by activities	FP	2.00	5.00	0.73	4.20
22		Expenditure by services	FS	1.00	5.00	0.73	4.20
23		Expenditure by functions	FS	1.00	5.00	0.77	4.20
24		Long-term investments	FS	2.00	5.00	0.81	4.19
25		Ethical operational policies	CI	1.00	5.00	0.85	4.18
26		Administration to total expenses	FP	2.00	5.00	0.75	4.18
27	Quite important	Reserves	FS	1.00	5.00	0.78	4.18
28		Programme expenses/total expenses	FP	2.00	5.00	0.73	4.17
29		Output	NFP	2.00	5.00	0.70	4.17
30		Customer satisfaction measures	NFP	1.00	5.00	0.79	4.17
31		Long-term liabilities	FS	1.00	5.00	0.78	4.17
32		Other recognized gains/losses	FS	1.00	5.00	0.76	4.16
33		Total fund carried forward (c/f)	FS	1.00	5.00	0.78	4.16
34		Administration and governance costs	FS	2.00	5.00	0.76	4.15
35		Total fund brought forward (bf)	FS	1.00	5.00	0.79	4.15
36		Efficiency	NFP	1.00	5.00	0.74	4.14
37		Statement of Assets and Liabilities	FS	1.00	5.00	0.86	4.14
38		Performance target and objectives	NFP	1.00	5.00	0.78	4.13
39		Outcome	NFP	2.00	5.00	0.74	4.13
40		Investment	FP	2.00	5.00	0.77	4.11
41		Effectiveness	NFP	2.00	5.00	0.75	4.10
42		Total non-current assets at cost	FS	2.00	5.00	0.77	4.10
43		Government borrowing/grants	SI	1.00	5.00	0.83	4.09
44		Productivity measures	NFP	2.00	5.00	0.79	4.09
45		Other incoming revenue	FS	1.00	5.00	0.78	4.09
46		Purpose and objectives	CI	1.00	5.00	0.77	4.08
47		Board of Directors	CI	1.00	5.00	0.82	4.08
48		Input	NFP	1.00	5.00	0.75	4.08
49		Long-term debtors	FS	1.00	5.00	0.87	4.08
50		Structure of organization	CI	2.00	5.00	0.80	4.06
51		Investment income/average investment	FP	2.00	5.00	0.77	4.05
52		Deferred liabilities	FS	1.00	5.00	0.85	4.05
53		Deferred credits from government grants	FS	1.00	5.00	0.90	4.02
54	Not important	Net rental income and expenses/rental income	FP	2.00	5.00	0.77	3.99
55		Chairman's report	SI	1.00	5.00	0.89	3.94
56		Personnel development	CI	1.00	5.00	0.94	3.77
57		Personnel	CI	1.00	5.00	0.90	3.70

## 7.5 Chapter summary

This chapter presented the results obtained from the online questionnaire survey using *Google Doc*. The results began by providing the response rates



and demographic profiles of the respondents. Descriptive statistics and non-parametric statistical tools were used to analyze the data; Mann-Whitney (MW) was used to test the two groups of stakeholders and Kruskal-Wallis (KW) tested within groups according to either the locality of respondents (perspectives of accountability) and a sub-group of stakeholders (expectations on disclosure of information). Descriptive and variance analyses were presented in tables to highlight the key findings, in addition to explanations in the text.

In this chapter, the results have been reported to answer the three sub-research questions (see Section 7.1). A summary of the findings for the first and second research questions is presented in Table 7.25, and the third on disclosure items and their weighted importance is shown in the previous table (see Table 7.24). Table 7.25 summarises the strongest agreement of respondents with statements in each question across groups of internal and external stakeholders, as shown in Panels A and B. On the other hand, Panel C shows the significant difference of mean (MW test) between internal and external stakeholders and mean responses across the various localities of stakeholders (KW test).

To sum up, the findings in this study indicate that despite the greater accountability of SIRC to a wide range of stakeholders, the expectations of SIRC were varied, in particular regarding their accountability. Yet, the majority of them agree that the meaning of accountability and Islamic accountability are similar. They also believe that Islam influences SIRC reporting practices.

Table 7:25: Summary of key findings from the questionnaire survey

Panel A - Strongest agreement about the accountability perspectives				
Constructs	First Ranking		Statement	Reference of statement
	Internal	External		
Meaning of accountability	1a	1a	1a. The obligation to take responsibility for actions and explaining such actions.	Gray and Jenkins, 1993
Islamic Accountability	2a	2a	2a. Everyone is accountable to Allah for his/her action/(s); this is rooted within the core of the Islamic pillars.	Sinclair, 1995; Ibrahim, 2000; Haniffa, 2002
Accountability to whom	3a	3e	3a. King or Sultan and Board of Directors of SIRC 3e. Fund providers and contributors	Coy <i>et al.</i> , 1997; Boven, 2007; Hooks <i>et al.</i> , 2012; Siraj, 2012
Accountability for what	4c	4a	4c. Performance and programme accountability 4a. Accountability for probity	Stewart, 1984
Panel B - Islamic influence on the reporting practices				
	Internal	External	Yes	No
Islamic influence	119 66%	243 69%	362 (68%) 53% not given 'how'	171 (32%)
Difference in reporting	69 38%	144 41%	213 (40%) 52% not given 'aspect'	320 (60%)

Panel C - Significant difference with statements using MW and KW tests with the highest mean rank by locality					
	MW	KW	Regional	Statement	Reference of statement
Meaning of accountability	1b	1b	East Coast	1b. An individual who is held responsible has a duty to provide an account (by no means necessarily a financial account) or reckoning of those actions.	Gray <i>et al.</i> , 1996
Islamic Accountability	-	2a	East Coast	2a. Everyone is accountable to Allah for his/her action/(s); this is rooted within the core of the Islamic pillars.	Sinclair, 1995; Ibrahim, 2000; Haniffa, 2002
		2b	East Coast	2b. The belief in the oneness of God ( <i>tawhid</i> ) is essential to explain accountability as custodians ( <i>khalifah</i> ) of the earth.	Baydoun & Willet, 2000; Maali <i>et al.</i> , 2006
		2c	East Coast	2c. They believe the Day of Judgement is the final accountability as the basis of one's actions	Haniffa, 2002; Osman, 2010
		2d	East Coast	2d. Islam offers a complete way of life for both profane and sacred matters explaining accountability in Islam.	Abdul-Rahim & Goddard, 1998; Lewis, 2006
		2e	East Coast	2e. Trusteeship ( <i>amanah</i> ) concept implies that rendering an account is essential to discharge accountability.	Haniffa, 2002
Accountability to whom	3e	3a	East Coast	3a. King or Sultan and Board of Directors of	Coy <i>et al.</i> , 1997; Boven, 2007; Tooley <i>et al.</i> , 2010; Siraj, 2012
		3b	East Coast	3b. State governments	
		3d	East Coast	3d. Overseeing bodies	
		3e	East Coast	3e. Fund providers and contributors	
Accountability for what	-	4a	East Coast	4a. Accountability for probity	Stewart, 1984
		4b	East Coast	4b. Process and procedural accountability	
		4c	East Coast	4c. Performance accountability	
		4d	Central	4d. Policy accountability	

## **CHAPTER 8 REGRESSION RESULTS**

### **Determinants of Disclosure**

#### **8.1 Introduction**

Chapter 8 discusses the results of the determinants of SIRC's annual reports. A self-developed disclosure index was used to evaluate the report, which was developed from a previous stage of the research through a questionnaire survey. This is the response to the second research objective in this study, namely to identify the determinants of SIRC annual reports and disclosure. Specifically, it was designed to answer the following research question: Do specific characteristics of SIRC, such as size, liquidity, leverage, profitability and efficiency, have a significant impact on the extent and quality of the disclosure?

The subsequent sections are organised as follows: Section 8.2 describes a survey of the sampled annual reports, and Section 8.3 explains the scoring method used for the disclosure items. The results concerning the disclosure of SIRC annual reports, their sub-scores of non-financial and of financial statements, are discussed in Sections 8.4 and 8.5 respectively, expressly the extent and quality of the disclosure items and the determinants of the disclosure. Section 8.6 summarises the chapter.

#### **8.2 Survey of annual reports**

This survey includes the SIRC population, which consists of fourteen SIRC throughout Malaysia. This population was therefore the main focus of this study. However, due to the non-mandatory nature of comprehensive annual reports, only the production of a financial statement is mandatory,

there was a limited number of annual reports. In this study, an annual report is defined as a combination of a financial statement and non-financial statements as this was a common practice in the companies. The distribution of feasible annual reports (AR) and solely financial statements (FS) is presented in Table 8.1 below.

Table 8.1: Number of SIRC’s annual reports and financial statements

Region	Code	2008	2009	2010	2011	2012	2013	Total
Central	SIRC1	AR+FS	AR+FS	AR+FS	AR+FS	AR+FS	AR+FS	6
	SIRC2	AR+FS	AR+FS	AR+FS	AR+FS	AR+FS	AR+FS	6
	SIRC3	AR+FS	AR+FS	AR+FS	FS	FS	FS	3
North	SIRC4	FS	AR+FS	AR+FS	AR+FS	AR+FS	AR+FS	5
	SIRC5	FS	FS	FS	FS	FS	FS	0
	SIRC6	FS	FS	FS	FS	FS	FS	0
	SIRC7	FS	FS	FS	FS	FS	FS	0
South	SIRC8	FS	FS	AR+FS	AR+FS	AR+FS	AR+FS	4
	SIRC9	FS	FS	FS	FS	FS	FS	0
East Coast	SIRC10	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	SIRC11	AR+FS	AR+FS	AR+FS	AR+FS	FS	FS	4
	SIRC12	FS	FS	FS	AR+FS	AR+FS	AR+FS	3
East of Malaysia	SIRC13	FS	FS	FS	FS	FS	FS	0
	SIRC14	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total annual reports		4	5	6	6	5	5	31

*As of 1 April 2015; where AR denotes an annual report which consists of a financial statement (FS) and a non-financial SIRC comprehensive, one while FS denotes exclusively a financial statement.*

Based on Table 8.1, a total of thirty-one annual reports are available from 2008 to 2013<sup>84</sup>, inclusively. There were two SIRC excluded from this survey. The first was SIRC10 as they did not agree to be included in this study. The second was SIRC14 as they have their own separate organization (Siraj, 2012) within one of the departments of the State government. Indeed, its financial management is combined with that at the state level which also applies to their annual report.

<sup>84</sup> The reason of deciding a six year survey has been explained in Section 6.4.2.4.

As a result, the total population in this study consisted of twelve SIRC over a six-year period, ending in 2013. Over this period five SIRC produced annual reports; there were three SIRC in the Central region (SIRC1, SIRC2 and SIRC3) and one SIRC on the North (SIRC4) and East Coast (SIRC11) respectively. However, the most recent annual report for SIRC11 was for the year 2011<sup>85</sup>. Interestingly, there were two SIRC in the South (SIRC8) and on the East Coast (SIRC12) that started preparing annual reports for the years 2010 and 2011 respectively. The other four SIRC in different regions did not prepare any annual reports over the whole six-year period; this included the South (SIRC9), the east of Malaysia (SIRC13) and the North (SIRC5, SIRC6 and SIRC7). The factors and constraints that influenced them to prepare an annual report will be reported in the interviews.

Of the twelve SIRC over the six-year period, 43% (31) of the reports were produced, which were then used as the basis for this reporting evaluation survey. In the absence of annual reports, financial statements were examined to compute the final score<sup>86</sup>. The consistency of a feasible report being produced allowed a more meaningful descriptive and comparative analysis of SIRC over the six-year period. The findings from this study, however, should be taken with some caution. They were obtained from the population of SIRC, with the exclusion of SIRC10 and SIRC14, which is sufficient to describe the practice of SIRC's reporting through their annual reports and financial statements. As Neuman (2011) insists, to give

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<sup>85</sup> Therefore this is discussed in Chapter 8: Interview results.

<sup>86</sup> A sample of thirty-one annual reports from twelve SIRC from 2008 to 2013 was used to evaluate the extent and quality of annual reports and their sub-reporting of non-financial statement items. Additionally, there was sub-reporting in the financial statements, which were consistently produced over the six years. This makes up a total of seventy-two financial statements.

accurate descriptions, a well-defined research question is essential. The disclosure index in particular was designed for a descriptive purpose, based on the comprehensive annual report.

Although the majority of the developed disclosure items were based on the statutory guidelines and standards, this study is not like most others on the disclosure index. It is not intended to measure the level of compliance with the guidelines, but instead aims to examine the extent and quality of disclosure as a useful means of assessing the discharge of accountability (Bakar and Saleh, 2011; Dhanani and Connolly, 2012; Sinclair *et al.*, 2009; Torres and Pina, 2003) and of looking at the relationship between disclosure and organizational characteristics. The extent of disclosure was evaluated using the pre-determined weighted importance of the items disclosed. Then, the quality was identified based on their qualitative characteristics. The next section explains the measurement method, or scoring used, to evaluate the extent and quality of the disclosure items.

### **8.3 Scores of disclosure items**

This study used both an unweighted and a weighted disclosure index using the five-point Likert scale. Based on the unweighted approach, an item was given '1' if disclosed or otherwise '0'. Then the extent of disclosure was measured by computing the ratio between the SIRC score and its maximum possible score (MPS). The MPS is important to indicate any 'non-applicable item' was not penalized if it had not been disclosed.

The unweighted scoring is computed as follows:

$$UN\_DIS_i = \sum_j^{57} X_{j,i} / M_i$$

where,

$M_i \leq 57$ ,  $X_{j,i} = "1"$  if  $j^{th}$  item was disclosed and "0" otherwise and  $M_i$  = the maximum possible number of disclosure items for an SIRC<sub>i</sub>

Meanwhile, according to the weighted approach, standard disclosure was used to measure the extent of disclosure. The result of the mean used to reflect the weighted index for each item represents the arithmetical average of the score given by the respondents to each of the disclosure items. Below is the computation of weighted scoring:

$$W\_DIS_i = \sum_j^{57} X_{j,i} \times ij^*P_j / \sum_{j=1}^{M_i} P_j$$

where,

$M_i \leq 57$ ,  $X_{j,i} = "1"$  if  $j^{th}$  item was disclosed and "0" otherwise and  $P_j = j^{th}$  item weighted importance (arithmetical average of the points for SIRC<sub>i</sub>)

Both unweighted dichotomies and weighted importance were used in this study to generate the final score of the extent of disclosure for both the annual report and the financial statement<sup>87</sup>. Next, the quality of disclosure was evaluated, based on the predetermined criteria, adapted from Beest *et al.* (2009), as shown in Appendices C and D. Each score of the extent and quality of disclosure was normalised as 100% and any irrelevant item was not penalized. The score of extent and quality is added to generate the final score for each report, which is again normalized to 100<sup>88</sup>.

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<sup>87</sup> While thirty-one annual reports were used to evaluate the extent and quality of non-financial statement items, this also applied to seventy-two financial statements.

<sup>88</sup> As for the regression purpose in Section 8.4, despite the absence of annual reports, the non-financial statement items were scored zero, to compute the final score of disclosure for each SIRC, in addition to the scores of the financial statements. Therefore, the total number of observations is seventy-two i.e. from twelve SIRC over six years.

## 8.4 Determinants of disclosure

This section provides the results of regression in order to answer the second objective in this study, specifically to identify the determinants of SIRC annual reports disclosure. Specifically, the purpose is to determine whether specific attributes of SIRC, such as size, liquidity, leverage, surplus and efficiency, have a significant impact on the extent and quality of disclosure. The disclosure refers to two types of reports, namely, annual reports, a combination of financial and non-financial disclosure items in an annual report, and financial statements. The research question for this objective is 'do SIRC characteristics affect their annual reports disclosure'?

### 8.4.1 Descriptive statistics

To evaluate the extent and quality of disclosure, three dependent variables were used respectively for scores of annual reports, and for non-financial and financial statement disclosure. The score is made up of the extent and quality scores. The independent variables employed were SIRC-specific characteristics such as size, liquidity, leverage, profitability and efficiency.

Table 8.2 presents descriptive statistics of the dependent and independent variables.



Table 8.1: Descriptive statistics of variables

Variables	Mean	Median	SD	Min	Max	Skewness	Kurtosis
Dependent variable (n=72)							
Annual Report	52.20	41.74	15.55	33.31	76.40	0.330	-1.743
Extent	56.79	48.04	15.70	32.17	81.59	0.289	-1.612
Quality	47.61	36.70	15.71	27.80	73.20	0.350	-1.695
Non-financial statement	24.64	0.00	28.99	0.00	68.79	0.374	-1.810
Extent	24.33	0.00	28.63	0.00	66.66	0.373	-1.818
Quality	24.95	0.00	29.53	0.00	70.91	0.408	-1.744
Financial statement	79.76	80.89	4.61	66.61	86.61	-1.479	1.797
Extent	89.24	88.44	6.87	64.34	99.89	-1.418	3.084
Quality	70.28	71.11	4.48	55.56	75.56	-1.903	3.755
Independent variables (n=72)							
Size	7.85	7.89	0.62	6.19	8.71	-1.189	1.684
Liquidity	15.46	8.83	18.58	1.34	89.54	2.604	6.698
Leverage	0.20	0.10	0.26	0.01	1.14	2.136	4.114
Efficiency	0.82	0.84	0.19	0.30	1.20	-0.395	-0.151
Surplus_dummy	0.93	1.00	0.26	0.00	1.00	-3.460	10.255

As reported in Table 8.2, the mean score of disclosure for financial statement is higher (79.76%) than for the annual report (52.2%). Looking at the components of the annual report, the mean score of the financial statement (79.76%) is much higher than that for non-financial statement items (24.64%)<sup>89</sup>. Likewise, the extent and quality scores of disclosure show a similar trend to the final score of the report. In this study, it is therefore pertinent to investigate three different models of disclosure, which are the annual report, non-financial statement items and financial statements. The results of skewness and kurtosis reveal that all continuous variables are not normally distributed, which is similar to the Kolmogorov-Sminov and Shapiro-Wilk tests<sup>90</sup>.

<sup>89</sup> In this study, as for the sampled SIRC' annual reports (n=31), non-financial statement items will be investigated further while the financial statements are included in the entire financial statement variable (n=72).

<sup>90</sup> There is a deviation from normal data when the values of Skewness and Kurtosis are more or less than 0, and the data is not normally distributed if the result is significant (Field, 2013).

Despite the non-normality of the data, the central limit theorem<sup>91</sup> is pertinent to the theoretical justification (Gujarati and Porter, 2009), so that a normality test can be used. Additionally, prior to the linear regression analysis, all variables in regression models must fulfil several conditions. In particular, empirical studies on accounting disclosure require attention to many issues such as normality of data distribution, outlier and linearity in multiple regression analysis (Cooke, 1998). This study is assumed to have normal data distribution and the parametric tests were pertinent (see Section 6.4.2.6 for the regression data screening).

### 8.4.2 Multivariate analysis

An Ordinary Least Square (OLS) regression was conducted to test the relationship between the dependent variables of the disclosure scores and the independent variables. The regression was initiated with a Pearson correlation test to identify any multicollinearity between independent variables and across variables. A correlations matrix was used to examine the correlations between all the independent and control variables. The results are presented in Table 8.3.

Table 8.2: Pearson correlation matrix across independent variables

	Size	Liquidity	Leverage	Efficiency	Surplus	Locality	Ownshp	Web Report	Annual Report
Size	1								
Liquidity	0.128	1							
Leverage	-0.166	-0.141	1						
Efficiency	0.053	-.232*	.334**	1					
Surplus	0.057	-0.042	-.280*	-.383**	1				
Locality	-0.064	.280*	.272*	-0.039	-0.152	1			
Ownership	-0.214	-.282*	-0.032	0.162	-0.056	-.407**	1		
Web Report	.494**	-0.12	-0.193	-0.057	-0.024	-.533**	0.189	1	
Annual Report	.513**	0.11	-0.073	-0.016	0.017	-.279*	0.032	.514**	1
** . Correlation is significant at the 0.01 level (2-tailed).									
* . Correlation is significant at the 0.05 level (2-tailed).									

<sup>91</sup> As the sample size is large, the assumption of normality matters less. The sample size is considered large if it is more than thirty (Field, 2013).

Table 8.3 shows the highest correlation is 0.533, which is below 0.7<sup>92</sup>. This indicates that there is no high correlation in any combination of independent variables, and thus multicollinearity is not a matter for concern. Next, all of the variables were tested in the regression model; the equations are expressed in Models 1, 2 and 3 below:

**Model 1:**  $DAR_s = \beta_0 + \beta_1Size + \beta_2Liquidity + \beta_3Leverage + \beta_4Efficiency + \beta_5Profitability + \beta_6Ownership + \beta_7Locality + \beta_8Accessibility + \sum_s$

**Model 2:**  $DNFS_s = \beta_0 + \beta_1Size + \beta_2Liquidity + \beta_3Leverage + \beta_4Efficiency + \beta_5Profitability + \beta_6Ownership + \beta_7Locality + \beta_8Accessibility + \sum_s$

**Model 3:**  $DFS_s = \beta_0 + \beta_1Size + \beta_2Liquidity + \beta_3Leverage + \beta_4Efficiency + \beta_5Profitability + \beta_6Ownership + \beta_7Locality + \beta_8Accessibility + \sum_s$

where,  
 $DAR_s$  = Annual Report Score  
 $DNFS_s$  = Non-Financial Statement Score  
 $DFS$  = Financial Statement Score  
 $\beta$  = the constant coefficient  
 $\sum_s$  = the error term

The above three models are used in the regression equation. Each model is sub-divided into Models a and b for the extent and quality of disclosure respectively. This is because the final score of disclosure is made up of the extent and quality score. The conclusion is based on the robust findings, where these are supported by both Model a and Model b.

Prior to the linear regression analysis, all variables in regression models must fulfil several conditions. In particular, empirical studies on accounting disclosure require attention to plenty of issues such as the multicollinearity and heteroscedasticity in multiple regression analysis (Cooke, 1998). Table 8.4 addresses such issues in all regression models.

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<sup>92</sup> Correlation above 0.7 is defined as highly correlated (Pallant, 2013)

Table 8.3: Regression results

	Expected	Model 1 (AR)		Model 2 (NFS)		Model 3 (FS)		Model 1a		Model 1b		Model 2a		Model 2b		Model 3a		Model 3b	
	sign	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat	coefficient	t-stat
Constant					-2.028		10.995												
Size	+	0.343***	2.565	0.391***	2.927	-0.315**	-2.446	0.37***	2.695	0.320**	2.382	0.405***	3.008	0.577***	2.821	-0.275**	-2.048	-0.229*	-1.892
Liquidity	+	0.19	1.652	0.158	1.401	0.204*	1.758	0.207	1.785	0.169	1.485	0.155	1.354	0.152	1.453	0.275**	2.283	-0.001	-0.009
Leverage	-	0.114	0.961	0.129	1.105	-0.107	-0.895	0.15	1.037	0.096	0.817	0.125	1.075	0.151	1.123	0.018	0.145	-0.248**	-2.204
Efficiency	+	-0.047	-0.375	-0.09	-0.728	0.273**	2.235	-0.008	-0.062	-0.055	-0.584	-0.03	-0.646	-0.099	-0.8	0.579***	3.033	-0.021	-0.186
Surplus	+	0.009	0.074	-0.02	-0.174	0.139	1.635	0.011	0.095	0.006	0.053	-0.031	-0.252	-0.01	-0.086	0.258*	1.992	0.025	0.210
State ownership		-0.042	-0.348	0.001	0.01	-0.315***	-2.548	-0.017	-0.14	-0.036	-0.351	0.01	0.082	-0.007	-0.061	-0.168	-1.350	-0.597***	-5.516
Locality		-0.229	-1.501	-0.213	-1.553	-0.074	-0.575	-0.303**	-2.099	-0.15	-1.06	-0.126	-1.6	-0.21	-1.492	-0.244*	-1.825	0.221*	1.828
Accessibility		0.207	1.345	0.204	1.354	0.504***	5.919	0.123	0.795	0.286*	1.881	0.185	1.226	0.221	1.455	0.528**	2.457	0.532***	4.404
significant *0.10, **0.05, ***0.01																			
F-value		4.099***		4.522***		5.981***		3.385***		4.361***		4.446***		4.552***		5.188***		5.561***	
Adjusted R <sup>2</sup>		25.90%		28.40%		25.10%		24.50%		27.50%		28.00%		28.40%		19.80%		33.90%	
Std. Residual		-3.469		-3.387		-4.475		-3.347		-3.614		-3.453		-3.434		-4.856		-3.91	
Max Cook's distance		0.179		0.175		0.143		0.152		0.203		0.168		0.178		0.107		0.291	
Max VIF		2.265		2.265		1.577		2.265		2.265		2.265		2.265		1.577		1.577	

Based on Table 8.4, the highest VIF is 2.263, which is below 10. This indicates that multicollinearity is not a concern in all regression models. The highest Cook's distance is 0.203, which is less than 1 and the standardised residual is less than 3.3, indicating no outliers. As such, it can be concluded that heteroscedasticity does not pose any problems in the models. Relevant tests have been inspected to ensure that the underlying assumptions of the OLS regression analysis are not violated.

### **8.5 Results and discussions of multiple regression**

Table 8.4 shows that the F-value for all models is significant at the 1% level. The adjusted  $R^2$  indicates that the independent variables used in the study can explain about 25%, 28% and 20% of the extent and quality of disclosure for annual reports, non-financial and financial statements respectively. It discusses the results of regression according to the eight tested characteristics. These are size, liquidity, leverage, efficiency and surplus; control variables such as state ownership, locality of SIRC and accessibility are taken into consideration.

#### **8.5.1 Size of SIRC**

From Table 8.4, it can be seen that the association between the size of a SIRC and the annual report and non-financial disclosure was positive and significant (at 1% level) in Models 1 and 2. Therefore, Hypotheses 1a and 2a are supported. In particular, the extent of annual reports and non-financial disclosure was statistically significant at 1% in Model 1a and Model 2a, whereas the quality of annual reports was significant at 5% and 1% respectively in Model 1b and 2b. This suggests that the extent and

quality of annual reports and non-financial disclosure have the same impact on size. A possible explanation for this positive relationship is due to the fact that the majority of SIRC are led by politicians<sup>93</sup>, a fact which motivates more disclosure for political support. Indeed, this study supports the political economy theory and the agency theory that are consistent with many other studies (Hussainey *et al.*, 2011; Laswad *et al.*, 2005; Christensen and Mohr, 2003; Wallace *et al* 1994).

In Model 3, although size reported a significant result, the negative coefficient contradicts the expected direction. Hypothesis 1c, which predicts a significant and positive association between size and the financial statement disclosure, is not supported by this study. The negative and significant association was also observed between the extent and quality of financial statements in Model 3a and 3b with size. The negative association indicates that the larger organizations tend to disclose less information than small organizations to avoid political intervention from the public. As such, it is inconsistent with the underlying public accountability.

### **8.5.2 Liquidity**

It was observed that liquidity was significant, at a 10% level, and positively related to the financial statement disclosure in Model 3. The extent of disclosure in Model 3a was also significant at 5% level. However, this was not the case for Model 3b and therefore, the findings are not robust enough to accept Hypothesis 2c. This study suggests that there is a

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<sup>93</sup> Only four SIRC are chaired by the State Ruler while others are led by the Chief Minister or a corporate person.

different determinant, of the extent and quality of financial statements, in relation to liquidity. Such determinant between the extent and quality of disclosure is also found by Alotaibi and Hussainey (2016).

In this study, the non-significant relationship was observed for both annual reports and non-financial statements in Model 1 and 2 and their sub-models. Therefore, Hypotheses 2a and 2b are not supported. Likewise, liquidity failed to provide any evidence supporting the relationship between liquidity and disclosure for all models. This non-significant finding indicates that liquidity is not significant and positively associated with the extent and quality of the disclosure of annual reports, and non-financial and financial statement disclosure. This finding is also in line with Aly *et al.* (2010) and Owusu-Ansah (1998).

### **8.5.3 Leverage**

Leverage was found to be negative and significant (at 5% level) in Model 3b. However, Model 3 in fact was insignificant. Therefore, the findings are not robust enough to support the hypothesis. This study concludes that leverage is not statistically associated with the extent and quality of financial statement disclosure. Hypothesis 3c is rejected, although the negative relationship confirms the expected positive sign. A non-significant relationship was observed between the annual report and non-financial disclosure and leverage in Model 1 and 2. The non-significant relationship between leverage and disclosure was also documented in the literature (Ntim *et al.*, 2016; Jaffar *et al.*, 2007 and Gordon *et al.*, 2002).

#### **8.5.4 Efficiency**

A significant 5% level and positive association in Model 3 was found between efficiency and the financial statement disclosure. Although a significant and positive direction was also observed in Model 3a (at 1% level), Model 3b was not significant. This study suggests that the extent and quality of financial statements have a different impact on the efficiency. As the result is supported by Model 3a only, it is concluded that efficiency is not statistically related with the financial statement, rejecting Hypothesis 4c. Other hypotheses 4a and 4b are also rejected.

The non-significance association however, depends on the measurement of disclosure whether the extent, quality or both is used. This finding contributes to the determinants of SIRC efficiency through disclosure, in addition to factors such as a computerised *zakat* system, *zakat* payment and decentralisation (Wahab and Rahman, 2011). The importance of efficiency is highlighted by Heijden (2013) for more effective fundraising. This matter is crucial to attract more funding in the NPO.

#### **8.5.5 Surplus**

This study did not find evidence to support a significant relationship between surplus and the disclosure of SIRC. Although it was found that there was a significant, positive relationship between surplus and the extent of financial statement disclosure at 10% level in Model 3a, basically Model 3 was not significant. Therefore, there is not enough evidence to support Hypothesis 5c. Similarly regarding efficiency, both Hypotheses 5a and 5b are not accepted.



The non-significant relationship was also reported by Chiu and Wang (2015). This is probably due to the different study context and proxy used in this study. They used the amount of profitability to measure profit whereas this study used 0 or 1 to represent the surplus or deficit respectively<sup>94</sup>. Overall, in this study, profitability appears not to be significantly associated with the SIRC disclosure, which has led to the non-significant difference between surplus and deficit SIRC in disclosure.

### **8.5.6 Control Variables**

#### ***8.5.6.1 State-Ownership***

In this study, it was revealed that state-ownership was negative and significant at 1% level in Model 3. This was supported by the quality of financial statement disclosure in Model 3b, but the extent of disclosure in Model 3a was not significant, implying that the extent and quality of disclosure have a different impact (Alotaibi and Hussainey, 2016), particularly on state ownership. Although the variable was significant, the negative coefficient contradicts the expected positive. Therefore, the state ownership variable is not supported, indicating that state-ownership is not related to the financial statement disclosure in Model 3.

In spite of the non-significance, the negative coefficient applies also to the annual report disclosure in Model 1. This suggests that SIRC governed by a government party disclose less information in their financial statements, than SIRC governed by an opposition party. Fundamentally, comprehensive disclosure is limited to minimize the possibility of political action, as

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<sup>94</sup> The profitability variable was also tested using an Independent t-test, the results indicating that there is no significant difference (p-value=0.682) in disclosure between SIRC with surplus and deficit.

posited by Wallace *et al.*, (1994). The non-significance of state ownership is consistent with the findings of Ghazali and Weetman (2006).

A positive prediction was observed for non-financial disclosure in Model 2, which is not significant. The positive sign implies that state-owned SIRC appear to disclose more information in their annual reports than is given in their financial statements, as claimed in political-economy theory. In this study, this theory is not supported. A possible explanation for this positive association is due to the SIRC resolution and accountability index<sup>95</sup> which has led to a transparency of disclosure among them. The non-significance of this factor means that more efforts should be taken by the government to enhance voluntary disclosure by all government agencies, and in particular, by state-owned SIRC.

#### **8.5.6.2 Locality**

This study did not find any evidence to support the hypothesis that there is a significant association between locality and the disclosure scores of annual reports and both types of sub-reporting, namely, non-financial statements and financial statements. Looking at the sub-models, it was found that the extent of annual reports in Model 1a was significant, at 5% level, and the extent and quality of financial statements respectively in Model 3a and 3b (at 10% levels). This study suggests that the extent and quality of financial statement disclosure might have a similar impact on the locality. However, it was found that the locality was not significant for annual reports, non-financial and financial statements in Model 1, 2 and 3.

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<sup>95</sup> See Section 1.3 for details of the resolution and accountability index.

Therefore, there is not enough evidence to support this variable. The non-significant association contradicts Archambault and Archambault (2003) and Haniffa and Cooke (2002) with an argument indicating that culture has a significant influence on the disclosure. In this study, the locality of SIRC identifies their culture (Abdul-Rahman and Goddard, 1998).

#### **8.5.6.3 Accessibility**

Only in Model 3 was accessibility found to be positive and statistically significant, at 1% level, for the financial statements. The significant association was also found in the extent, at 5% level, and quality, at 1% level, of financial statements in Models 3a and 3b respectively. Indeed, this finding provides evidence to support the hypothesis that accessibility could enhance disclosure (Coy *et al.*, 2001). The extent and quality of the financial statements is related to accessibility. The positive coefficient suggests that SIRC that prepare annual reports allow easy accessibility to the public and appear to disclose more information. A similar finding was also documented by Bakar and Saleh (2011). The financial statement allows experienced readers to extract information from the audited financial statement to meet their needs (Connolly and Hyndman, 2013).

In conclusion, the results should be taken with caution. Despite the fact that this research has attempted to ensure the reliability and validity of this quantitative study, there are nevertheless several limitations. The slightly low explanatory power of the three different models, about 20%-25%, shows that there are other factors which can explain the SIRC disclosure. For instance, such factors could be the inconsistency of the annual report

publications, the absence of annual reports for several SIRC and the difficulty in quantifying several variables.

The unavailability of information also limited the present study to examining corporate governance mechanisms which might have influenced the disclosure, as proven in many disclosure studies (Ntim *et al.*, 2016; Karaa, 2013; Hyndman and McDonnell, 2009; Hussainey and Al-Nodel, 2008; Barros and Nunes, 2007; Haniffa and Cooke, 2005). However, nowadays SIRC are becoming more active in producing annual reports, and future studies could examine the annual reports of SIRC more comprehensively in relation to corporate governance mechanisms. As an alternative to the limited secondary data, interviews were also conducted (see Chapter 9 for the results). The interviewees were accountants, the National Auditors of SIRC, regulators and the public, which was a means of satisfying the stakeholder theory.

Consistent with the notion of public accountability, Ntim *et al.* (2016) suggest that disclosure should focus not only on the financial performance of the reporting entity, but also on the voluntary disclosure of the non-financial report. Furthermore, they state that such a comprehensive report could satisfy the powerful stakeholders and result in the emergence of new stakeholders to broaden public accountability beyond the private, enabling a more sustainable operation. Supporting the roles of SIRC being accountable to the public, is also in accordance with *Shariah*. The comprehensive report evaluated in this study is thereby pertinent. Other environmental factors, such as political, economic and social issues, could

also influence disclosure practices (Hussainey and Al-Nodel, 2008). These particular factors associated with disclosure among SIRC will be discussed in the next chapter.

## **8.6 Chapter summary**

The second research objective achieved in this chapter is to identify whether SIRC financial characteristics have a significant impact on the extent and quality of disclosure. The result of the regression models revealed that the extent and quality of SIRC disclosure was influenced by organisational characteristic, namely size. This study suggests that disclosure in the annual report, in particular the non-financial performance, increases with the amount of *zakat* collection, thereby demonstrating SIRC's responsibility, as suggested by political economy theory. This could minimize agency costs, which therefore supports the agency theory consistent with Islamic accountability, with an expectation of full disclosure (Baydoun and Willett, 2000). This point is supported by Khaled and Nodel (2008), who suggest that the social factors of a religion such as Islam could influence the disclosure.

Next, the control variable of accessibility was found to be significantly related to financial statements. Obligated to produce financial statements, SIRC are more likely to disclose more information in the financial statements. Such accessibility to financial statements allows users to know more about SIRC as a result, and similarly the wide range of stakeholders, supporting stakeholder theory. Requested information might concern the

*zakat* collection and the distribution of funds, disclosed in the notes to the accounts.

These findings have important implications for regulators, policy makers and top officials in SIRC, by monitoring the quality of voluntary and mandatory disclosure, and supporting the whole notion of public accountability. Despite the voluntary disclosure of a non-financial report, SIRC should consider producing a comprehensive annual report for the discharge of their accountability. They should be more transparent to enhance accessibility, concerning the extent and quality of the disclosure. Consequently, dissatisfaction and inquiry about their accountability might be avoided (Wahab and Rahman, 2011), and thus, encourage more funding (Heijden, 2013; Lampkin and Raghavan, 2008; Muda *et al.*, 2006).

To conclude, the main findings in this study are robust in several regression models, since they are supported by the extent and quality of disclosure. Although there was no intention to differentiate the impact of the extent and quality of disclosure, the results showed that the relationship strength and the coefficient signs might also be different between the measurements. The arguments of Alotaibi and Hussainey (2016) and Chakroun and Hussainey (2014) claim that the quantity (in this study is the extent) and quality of disclosure may produce different significant regression results. While this chapter emphasised a quantitative side, the next chapter will discuss the determinants of disclosure from a qualitative approach.

## **CHAPTER 9 INTERVIEW RESULTS**

### **Factors Influencing the Expectations and the Current Reporting Practices of SIRC Reporting**

#### **9.1 Introduction**

This chapter analyses the interview results conducted with the three groups of respondents. There were ten accountants in the SIRC, six regulators and two representing the public (contributors cum researchers). The semi-structured interviews were carried out via Skype (14), telephone (2) and email (2). The mixed modes of interviews were conducted to give more flexibility to the respondents so as to facilitate access. All interviews lasted approximately one hour and they were conducted mostly in the interviewees' mother tongue, except for two researchers who preferred English.

Two sets of questions were asked of the respondents: one set focused on general questions and tailored questions to suit the interviewees' positions and their roles in relation to SIRC. The general questions were open-ended, similar to those in the questionnaire, in order to fully understand how SIRC accountants, regulators and the public perceived the disclosure items to that should be disclosed in the SIRC annual reports. They could share their opinion of the current reporting practices. The interviews aimed to provide in-depth explanations to answer the third research objective, specifically to investigate factors influencing the expectations and practices of disclosure in the SIRC annual reports, from the perspectives of SIRC's accountants, regulators and users like auditors and the public.

The general questions were: a) How do you identify the content of reporting that should be disclosed? b) How should Islamic thought influence the content of reporting in the SIRC's annual reports? Additional questions were to three groups of interviewees as follows: 1a) The preparer accountants were asked, what are the reasons or constraints for disclosure or non-disclosure of items in the SIRC annual reports?; 1b) Non-preparers were asked, what are the factors for not preparing annual reports? 2) The second group of regulators were asked: why is an annual report not mandatory? 3) The third group of contributors cum researchers were asked a combination of both set of questions.

The subsequent sections are organised as follows: Section 9.2 presents the profile of interviewees; Section 9.3 and 9.4 respectively discuss the factors influencing information disclosure and the Islamic influence on the content of reporting. Next, Section 9.5 explains the problems in preparing annual reports, both external and internal factors. Section 9.6 discusses a mandatory issue of the SIRC reporting and Section 9.7 elaborates the key findings on the evaluations of the SIRC annual reports. Section 9.8 summarises the interview results.

## **9.2 Profile of interviewees**

Every interviewee was asked for their views on the basis of their expectation of what information should be disclosed in the SIRC's annual reports. The perspectives cover different groups of stakeholders under the banner of public accountability in understanding their needs. The interviewees were classified into three groups namely: preparers (SIRC



accountants), regulators and users. The regulators were represented by the national accountants and auditors who are involved in auditing SIRC. The public users were represented by individual contributors cum academics who are actively researching SIRC, the public sector and Islamic accounting and *zakat* (hereinafter, researcher or Professor). Next, there are two tables to present the profile of interviewees. Table 9.1 lists the SIRC accountants and Table 9.2 shows external interviewees consisting of auditors as the users of annual reports, regulators and the public.

Table 9.1: Accountants of SIRC

Region	Location	No.	Position	Code	Mode of interview
Central	Central1	SIRC1	Accountant	AC1	FTF
	Central2	SIRC2	Accountant	AC2	FTF
	Central3	SIRC3	Accountant	AC3	FTF
North	North1	SIRC4	Accountant	AC4	FTF
	North2	SIRC5	Accountant	AC5	Email
	North3	SIRC6	Accountant	AC6	FTF
	North4	SIRC7	Accountant	AC7	FTF
South	South1	SIRC8	-	AC8	No
	South2	SIRC9	Assistant Acct	AC9	FTF
East Coast	EastCoast1	SIRC10	-	AC10	No
	EastCoast2	SIRC11	Accountant	AC11	FTF
	EastCoast3	SIRC12	Assistant Acct	AC12	FTF
East of Malaysia	East1	SIRC13	-	AC13	No
	East2	SIRC14	-	AC14	Excluded*
Total					10

FTF denotes face-to-face interview  
 \*Excluded as it does not have an explicit structured organisation

Table 9.2: Non-preparers interviewees

Group	Organisation	Position	Code	Mode of interview
Regulators	Accountant's General Department (AGD)	Coordinator for state government	R1	Telephone
	Department of <i>Waqaf, Hajj</i> and <i>Umrh</i> (JAWHAR)	Assistant Director	R2	Email/telephone
Auditors	National Audit Department (NAD)	Director at state A	AU1	Email/telephone
		Director at state B	AU2	Email/telephone
		Coordinator for federal government	AU3	Telephone
The public (Contributors cum researchers)	University (Malaysia)	Professor in Accounting (Islamic Accounting /Banking/Shariah Audit)	C1	FTF interview
	University (Malaysia/Riyadh, UAE)	Assistant Prof in Accounting, Public Sector	C2	FTF interview
Total			8	

### 9.3 Factors influencing the perceptions and current practices of information disclosure

This section discusses the responses from interviews on what the preparers, regulators and the public perceived about information disclosure in the SIRC annual reports. This will identify factors that influence the expectations as presented in the questionnaire survey in the first stage of this study (see Chapter 7). The findings are discussed according to the themes that were identified in the interview analysis.

The majority of interviewees perceived accounting standards as the main factor contributing to their expectations and further influenced the reporting practices among accountants in SIRC. This factor will be discussed next with other factors including state *fatwa*, audit expectations and individual perceptions.

#### 9.3.1 National Accounting standards

In Malaysia, the Malaysian Public Sector Accounting Standard (MPSAS)<sup>96</sup> applies to all public sector entities in Malaysia other than government business enterprises (Accountant General's Department, 2013). When accountants in SIRC were asked about the basis of preparing financial statements, the majority of the answers were 'accounting standard'. Not surprisingly, this finding is in line with results found in the questionnaire which shows that all mandated financial statement items as required by the accounting standards were found to have high means (see Table 8.2).

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<sup>96</sup> The MPSAS is based on International Public Sector Accounting Standard (IPSAS) 1, Presentation of Financial Statements from the Handbook of International Public Sector Accounting (IPSA) Pronouncements of the IPSA Standard Board, published by the International Federation of Accountants (IFAC).

This deals with the most basic accountability level for compliance with the accounting standards (Dunne, 2013), supporting findings in the questionnaire, which refers to accountability for probity and legality (see Table 7.9, p. 178). One accountant in the North2 stated:

*“Accounting standards are the main guidelines in preparing financial statements”.* [AC4]

Another accountant in EastCoast1commented:

*“We follow MFRS”.* [AC12]

One accountant in EastCoast2 added:

*“We follow the accounting standards in PERS (private entity reporting standards)”.* [AC11]

Further explanation on PERS, was mentioned by an accountant in the Central2:

*“We follow accounting standards issued by Malaysian Accounting Standard Board (MASB), specifically PERS because we are a small entity and have no subsidiary”.* [AC2]

The importance of accounting standards compliance has been highlighted by a National Auditor who stated:

*“All disclosure items should be disclosed in the annual report of SIRC if they are affected in the financial statements, it should be explained in the notes to the accounts and none of them could be escaped”.* [AU1]

However, due to the uniqueness of SIRC, the accounting standard is not the only consideration in preparing financial statements. A National Auditor pointed out:

*“Despite the accounting standards, SIRC is also subject to the provisions of state enactment”.* [AU3]

This is because of the existence of monitoring a *Shariah* committee in every SIRC in different states to ensure *Shariah* compliance.

One accountant in the South posited:

*"In terms of reporting, we follow the accounting standards, at the same time considering fatwa which even takes precedence over the standards".* [AC9]

An accountant in the North supported this by saying:

*"The accounting standard is one of our guidelines in preparing annual reports and then we take into account any decision being made by fatwa in our council. As our main focus is on zakat, so our main reference is Shariah compliance which takes precedence over the accounting standards. This matter also has been acknowledged by the National Audit Department".* [AC4]

This practice was relevant as a national accountant policy maker stated:

*"Although financial statements are audited based on the accounting standards, some activities in SIRC such as zakat, waqaf and mal are not covered in the accounting standards".* [R1]

The auditor mentioned:

*"The SIRC annual report that I audited used best reporting practice in preparing its financial statement. However, if there is a lack of guidelines, the SIRC has to refer to its fatwa committee and it should be accepted by the auditors".* [AU1]

Another view of one researcher highlighted the lack of accounting standards:

*"In terms of references that they should refer to, if I'm not mistaken there might be no specific accounting standard in particular in preparing the annual report that SIRC have to follow as far as I know".* [C2]

Due to the complexity of the reporting for SIRC, an accountant in the North said:

*"We have to fulfil several constituents; these are fatwa, board members and MASB. But in terms of accounting standards, MASB is undergoing research about zakat accounting and they requested data from us for that research purpose".* [AC4]

As a result, SIRC has a wide accountability chain which has led to different types of accountability aspects, as one researcher claimed:

*"On the one hand, we have financial accountability and on the other hand we have religious accountability, so there are two aspects of accountability*

*here. It is not just purely administrative and financial; it is also about Islamic accountability". [C1]*

Another researcher also agreed:

*"Besides the financial accountability, SIRC also need to think of accountability in terms of their management and political accountability". [C2]*

She elaborated that financial accountability is quite simple. It is about financial management for basic administrative accountability. Management accountability is more on the management side especially on the accountability of individual managers to the public and how they carry out their roles as a manager of an Islamic institution. Political accountability refers to vertical management whether SIRC management or leaders would have an interest. The top officials of SIRC have a political master which is the government of the day; political accountability is also part of the accountability system which the SIRC institutions should uphold.

In summary, there are three types of accountability that SIRC need to take into account in preparing annual reports which are: financial, political and managerial. The various types of accountability have led to different interests such as economic, political, legal and social accountability as discussed in Section 2.3.1, p. 34. These factors could influence the reporting content of SIRC in order to satisfy the needs of various stakeholders with different interests.

Despite the various challenges in fulfilling several types of accountability to address many constituents, a number of suggestions were highlighted.

One researcher recommended:

*"SIRC are state statutory bodies so, what they can do is to refer to federal statutory bodies requirements. They can follow whichever is applicable to them as much as they can, because the federal statutory bodies reporting requirements are quite regulated". [C2]*

The reporting guideline for preparing the annual report here refers to the Malaysian Government Treasury Circular (MGTC) 4/2007 which was issued by the Ministry of Finance, Malaysia. The circular has been referred to in this study in developing a disclosure index for SIRC via a questionnaire survey. However, there is a limitation of such a reference, as further explained by the researcher:

*"Referring to MGTC 4/2007, it is just part of what they should do. SIRC have a different system than the federal statutory bodies but at least they have some references to the established reporting system. They should develop together their own reporting system and they can call it good practices of reporting for SIRC". [C2]*

As the circular applies to all statutory bodies in general, not all disclosure items recommended are applicable to SIRC. However, they can take part of the circular and enhance it, based on their own positions and expectations of the Muslim public through a survey. The present study could respond to such a call.

Another key point to highlight from this suggestion is the development of a reporting system. The researcher (C2) posited it should be done collectively, which means that all SIRC representatives sit together. Accountants and those who prepare the annual reports can consider and deliberate on what the best reporting system should be. Finally, a set of recommendations can be made for the best reporting practices for SIRC. This has been pointed out by another researcher who responded:

*"If you follow the development of government financial reporting in Malaysia, it is a basic administrative accountability; they have yet to move to wider stakeholder accountability towards the public. In general, government financial reporting in Malaysia is very fundamental not really reaching the level of what we have seen in the UK, Australia or in the US".* [C1]

All government entities in Malaysia are audited by the National Audit Department (NAD). SIRC may also be influenced by government financial statement requirements. In this case, however, the need for *zakat* reporting is crucial in SIRC so as to satisfy the needs of stakeholders within public accountability. This is suggested by C1 which supports the present study. As such, the present study is pertinent and supported by several interviewees among accountants in SIRC, regulators and researchers.

To date, there is no specific reporting guideline for SIRC. They have the best practices of financial management for SIRC which was introduced in 2003. As guidelines, it is not mandatory as stated by several accountants.

For example:

*"Previously, the Department of Islamic Development (JAKIM), Accountant National Department of Malaysia (ANM) and accountants in SIRC sat together to discuss the regulations and arising matters and finally, it was compiled as the best practices of financial management for SIRC. This is an alternative reference for accountants in SIRC. But, SIRC can change their usage based on their suitability".* [AC11]

*"We have named it as Procedures of Financial Management to ensure that our operation is consistent with Shariah".* [AC11]

*"...the best practice of financial management for SIRC was introduced in 2003 but SIRC do not have to completely follow it as it offers only a reference for the SIRC in managing their fund".* [AC3]

In this instance, one researcher responded:

*"That is a good move, I think but that happened around 10 years ago. So, what they should do is to move forward consistent with the status of our nation towards the developed nations. They have to move forward given the political scenario in our country where especially opposition parties are very demanding nowadays as well as the public. More should be done not*

*just by the management, but they should be transparent on how they manage the institutions. Being transparent, one way is by having a proper reporting system and disclosure”. [C2]*

Apart from developing a reporting system specifically for SIRC, benchmarking might be helpful in the process. One researcher highlighted:

*“...if all SIRC identify their benchmark for reporting, it would be good in developing the reporting system for SIRC”. [C2]*

The question here is to whom SIRC should benchmark their reporting.

Different points of view were obtained from SIRC accountants, researchers and regulators on current reporting practices:

*“We refer to the corporate annual report, we look at the nature of the information disclosure being disclosed such as structure of organisations, mission and vision but it should be revised based on the SIRC context such as zakat and other funds”. [AC3]*

*“SIRC could benchmark their reporting system with similar organisations like government organisations or other government agencies such as local government that follow reporting for local governments. Although SIRC are state statutory bodies, what they can do is to refer to the reporting of federal government, and SIRC could follow any appropriate provision of the reporting since the federal statutory bodies are more regulated in reporting”. [C2]*

This has been supported by regulators:

*“If we look at the annual report of the federal SIRC, it is more comprehensive”. [R3]*

*“...their report is more detailed compared to other SIRC. Probably, it is because they have a huge amount of zakat collection that needs to be reported”. [R1]*

The high level of voluntary disclosure in SIRC is consistent with the regression results found in Section 8.5.1 as the *zakat* collection increases.

Meanwhile, accounting standards are believed to be the prime basis for preparing annual reports for SIRC, specifically financial statements as required by the Malaysian National Audit Department (NAD). However, due to the uniqueness of SIRC as not only a government entity, but



established within the Islamic setting, they have to have their own reporting system. Developing the best reporting practices for SIRC is believed to resolve such conflict through benchmarking. It could be done with federal statutory bodies and local governments or even other corporate entities, which are more regulated in their reporting systems. In fact, the NAD also acknowledged the uniqueness of SIRC in reporting requirements. *Shariah* has to be followed via a *fatwa* committee in each SIRC board respectively.

### 9.3.2 State fatwa

Since SIRC were established within the Islamic setting, *Shariah* has to be followed in conducting administration of Muslim wealth. This was agreed by the majority of the respondents in the questionnaire as presented in Table 7.12. Apart from the basic administrative accountability in government, there are religious obligations in faith-based organisations (Yasmin *et al.*, 2014). One researcher highlighted:

*"We have financial accountability, as well as religious accountability. So, there are two aspects of accountability here. It is not purely administrative or financial; it is also about Islamic accountability". [C1]*

Islamic accountability is appropriate to SIRC because they are held responsible mainly for *zakat* which is a religious obligation. However, a researcher claimed:

*"..but treatments by many religious organizations including SIRC are because they are subjected to the government reporting requirements, so they treat pure financial accountability as normal like other government institutions; providing newsletters and so on, to them is good enough. Of course they have to prepare financial statements but the annual report is something which is more comprehensive, which is much wider in terms of accessibility and more information is required". [C1]*

In essence, the understanding of Islamic accountability suggests the need for annual reports beyond just the mandatory financial statement. Another researcher also pointed out:

*"...according to what Islam says; we should be avoiding fitnah. If they don't disclose information people may have some bad perceptions due to their 'bad' (su'zon) things which are not difficult to be reported but have high merit to the public Muslims". [C2]*

This infers the needs of a comprehensive annual report to avoid negative perceptions among stakeholders in discharging SIRC accountability. In dealing with Islamic accountability, the role of *Shariah* is essential. As for SIRC, they have a *fatwa* committee which is led by the *mufti* of the state.

One accountant defined *fatwa*:

*"...mufti is one of the board members, and regarding any fatwa and inquiries raised in the board meeting, the mufti will make the decision and this matter will be put forward to the Department of Fatwa in the state. If there is a financial implication, it will be disclosed in the financial statement". [AC6]*

One regulator explained:

*"Usually, in the case of financial statements, the fatwa council is not directly involved. However, if it is about zakat and waqaf related matters, fatwa decisions are referred to as provided in the state enactment. Indeed, between states throughout Malaysia it might be different in dealing with a particular issue pertaining to zakat and waqaf. This is probably, due to different sizes of SIRC in terms of the collected zakat amount against different needs in the state". [R1]*

An accountant in the North also agreed the important roles of *fatwa*:

*"The role of fatwa is important and we even prioritise any decision made by our state fatwa". [AC7]*

Indeed, *Shariah* has been acknowledged by the regulators, accountants and researchers as the prime concern in SIRC reporting. Therefore, although accounting standards should be complied with, should any conflicts between accounting standards and *fatwa* arise, the latter should

take precedence, supporting the internal/sense accountability as described by Laughlin (2006) and Kilby (2006).

### **9.3.3 Audit expectations**

Auditing for SIRC is an annual routine task which is carried out by the State National Audit Department (NAD) similar to that at federal level. The audit is performed to examine the financial statements of SIRC, whether it is presented in a true and fair view as provided in the Audit Act 1957. One National Auditor highlighted:

*“A main duty of an auditor is to validate the financial statement including receivable and payable accounts. They are audited against the approved budget and accounting standards”.* [AUD3]

She added that only the financial statement is audited. However, usually information other than that provided in the financial statement is requested, such as activity reports for the audit purpose. Such financial statement concerns are on the notes to the accounts, which explain details of the presented accounts such as the operations and activities. However, it is not as comprehensive as the annual report.

This indicates that the preparation of annual reports is encouraged, to explain the collection and spending of funds of the year. As such, supporting the strongest agreement in the questionnaire results (see Table 7.3, p. 170), on the Gray and Jenkin's (1993) statement, shows accountability is about an obligation to take responsibility for actions and to explain them.

Further explanation about the post-audit work was elaborated by another auditor:

*“In practice, after the audit certificate has been issued by the National Audit Department (NAD), it will be presented in the State Assembly, (DUN) subject to provision in the state enactment. The state government ought to prepare documentation to the State Secretary of Government (SUK) including an annual report if there is enforcement to present it like the Federal Territory. We will only audit the annual report if it is provided in the state enactment. Other documents such as the minutes of meetings and the accountability index also are used in auditing”. [AU2]*

The pre-determined audit checklist of the financial statement is identified based on the accounting standards, audit requirements and other related documents for compliance. However, a comprehensive annual report is also suggested to better explain the SIRC activities and achievements. All of them are subject to the state enactment and *fatwa* in the respective SIRC. Consequently, this might influence the SIRC reporting practices regarding accountability for legality and probity outlined by Stewart (1984), supporting external/imposed accountability discussed in Section 2.2.3.

#### **9.3.4 Individual perceptions**

Perception is another factor that influences the expectations of information disclosure and the current reporting practices. The individual perceptions highlighted in the accountability concepts (see Section 2.2.3) including issues in relation to the accountability relationship between the stakeholders and SIRC, the attitude of the public and top management, are elaborated here. This study views the entire stakeholder groups comprehensively within the purview of public accountability.

The meaning of SIRC stakeholders was defined by a researcher to identify the accountability relationship and information disclosure issue in relation to SIRC:

*“To me, whatever information that they should disclose or decide to disclose, should be based on a few things. One of them is what is their accountability to stakeholders? Stakeholders mean the Muslim public. So, they have to identify what the needs of the Muslim public are in terms of information they would like, about the organization, their accountability and transparency.”[C2]*

Two key findings from the above quotations are: the Muslim public are the stakeholders of SIRC, and their needs are crucial to identify to what extent information of the SIRC, is held accountable to the stakeholders. In order to disseminate the information to the stakeholders, those responses suggest an annual report is needed to mitigate conflict in the agency and stakeholder theories. The importance of an annual report was claimed by another researcher:

*“I strongly agree that an annual report is prepared by SIRC for the simple reason that the demand for accountability by stakeholders is actually a very direct relationship, because they are zakat payers. I think the contribution to SIRC in the financial contribution makes the bulletin and newsletters insufficient to many educated and enlightened zakat payers nowadays”.* [C1]

Another accountability chain which emerges is between the SIRC and its state government. Contribution from the state government was mentioned by an accountant in East Coast<sup>1</sup>.

*“We receive a government grant from the state government RM500,000 every year and others are our own revenue such as collection from zakat, rental and so forth”.* [AC12]

Apart from the *zakat* collection, being a recipient of a grant from government, SIRC are also accountable to the government. They should consider government expectation in identifying items of disclosure beyond

the compliance of a financial statement. Although an annual report is suggested in addition to the financial statement, nevertheless one researcher claimed:

*“I believe that an annual report of SIRC is very important. I think because of the simple accountability relationship between SIRC and the contributors, so far, the only mechanism to SIRC to be seen as accountable is through the publication of newsletters, brochures and so on. That’s what I see in Malaysia. However, the contributors now are more educated, they are more sophisticated. Many times we heard about the dissatisfaction especially in the zakat payers”.* [C1]

The reasons for dissatisfaction were highlighted:

*“Dissatisfaction was in many things, for example the way SIRC distribute zakat because they want to know more about the distribution, they want to know more about the financial management of zakat institution so... yet it’s not actually well met by SIRC in Malaysia so far”.* [C1]

This shows that the fund contributors are demanding to know the break down figures and explanations about the distribution funds. As such, those responses are consistent with the expectations of external stakeholders discussed in the questionnaire results, which found that SIRC are accountable to the funders (see Table 7.7), otherwise, this forces them to make inquiries, complaints and voice their dissatisfactions about SIRC (Wahid *et al.* 2009). The routine circulation of bulletins and newsletters nowadays, is not sufficient for those who are more aware of the roles of SIRC and their accountability.

In this scenario, one accountant (AC7) in North3 highlighted that fund contributors do not know the details about fund collection and distribution for the current year. Thus, she suggested that a performance measurement should be included in today’s annual report to explain to those curious members of the public (see Section 9.7.1).

Another suggestion in a purview of public accountability was elaborated:

*“The element of public accountability is where we have to identify our potential stakeholders. Now, we have to start with the needs of the stakeholders and then, we have to move backward. What are the needs of the stakeholders?”.* [C1]

Indeed, this study aims to discover the information needs of stakeholders.

On the top of accounting standards and government guidelines on the reporting for all government agencies, SIRC should take into account their greater accountability which should be reflected in their reporting practices. Therefore, Islamic accountability through *fatwa*, audit expectations and public demands could be considered. Such awareness is important in SIRC, to differentiate them from other government agencies. This contradicts the questionnaire results found in this study which revealed only 40% agreed with the difference (see Figure 7.9, p. 182).

The existence of governance similar to the board of members in a company, in SIRC through the *fatwa* committee, is an ideal platform to ensure their objectives are achieved within the Islamic and public setting. An accountant in SIRC (AC3) mentioned that a board council of SIRC consists of state government Islamic scholars (mufti) and is responsible for any Islamic matters raised in the SIRC as provided in the state enactment. Therefore, this study suggests that the extent and quality of disclosure depends on the demand from the regulators, auditors and funders. The findings are consistent with the stakeholder theory that explains SIRC have an incentive to provide more information to powerful stakeholders, compared to the unimportant stakeholders such as the service recipients. This contradicts the public accountability theme, underlying this study.

## 9.4 Islamic influence on the content of reporting

Following the findings on Islamic influence on the content of reporting in the questionnaire survey, 68% agreed with the influence (see Section 7.4.4); in-depth explanations were discussed in the interviews. Similar themes from the questionnaire findings were used, but in the interviews they were classified as follows: Allah is the main stakeholder; *Shariah* compliance; focus on *zakat*, *waqaf* and *mal* reporting to reflect the previous two themes, namely trust and transparency in managing entrusted Islamic wealth.

### 9.4.1 Allah is the main stakeholder

Allah is considered the prime and focal stakeholder in relation to accountability in Islam (Haniffa 2002, Ibrahim 2001). Since SIRC were established within the Islamic setting, Islamic accountability is pertinent and eventually differentiates the Western and Islamic scope of accountability while others' difference is not so obvious. One interviewee stated:

*"We can't see differences between Islamic and Western transparency and accountability but in terms of spirituality, the reason for being transparent of Islamic Institutions like SIRC versus the normal government institutions are very different. For Islamic institutions, transparency is motivated by the higher and noble reason, which is God, but other kinds of entities such as the Western transparency system, aim to be transparent for humans". [C2]*

As a result, the aims and way of life of Muslims' lives are affected, including SIRC reporting.

*"We should have Allah as a main stakeholder because we have broader and longer aims in life in terms of not only our aim for this world but also for the Hereafter. So given this, SIRC reporting should take into consideration compliance with Islamic standards of reporting". [C2]*



In Islamic accountability therefore, spirituality and the aims of life distinguish it from Western accountability, which affects the reporting of SIRC practices in line with their operations relating to Muslims revenue derived from *zakat*, *alms* and *mal*.

Several interviewees among the accountants, regulators and researchers also agreed that SIRC should be meeting their responsibilities to Allah. As for other government bodies, they would perceive man as their main stakeholder but for Islamic institutions, Allah is the main stakeholder. Indeed, reporting should also satisfy the main stakeholder through *Shariah* compliance (Baydoun and Willett, 2000).

#### **9.4.2 *Shariah* compliance**

Islamic accounting is pertinent for Islamic organisations such as SIRC. A full disclosure is one of the most important elements. One accountant in SIRC EastCoast2 said:

*“Islamic thought should influence the content of the annual report. Nothing should be hidden and we have no policy not to communicate a specific disclosure”. [AC11]*

The importance of full disclosure to ensure that SIRC run their operations in line with *Shariah* was provided by a researcher:

*“In terms of grant or loan receivable, SIRC should show that they are in compliance with Islamic Shariah where loans, for example, are not interest-based and not riba'-based, and then the grants that they receive are well spent, every single cent”. [C2]*

As such, this affects the presentation of reports for SIRC as indicated by an accountant in an SIRC in the North1:

*“Revenue from zakat collection is broken down separately as required by fatwa in our board and in the financial statements; this matter is indicated in the first note in the 8 notes to the accounts”. [AC4]*

On the other hand, one accountant in the South said:

*“Reporting format is not influenced by the Islamic content but it is more about the distribution to the right recipients, which has been highlighted by fatwa by our board. For instance, a recipient for riqab (slaves) as posits in the Shariah was replaced by other recipients as nowadays there is no more riqab”. [AC9]*

There is mixed opinion on the presentation of *zakat* reporting in relation to *Shariah* compliance. The former suggests a separate financial statement between *zakat* and other revenue, to ensure obvious distinct management of *zakat* funds from other revenue. In contrast, the latter prefers a combination of the financial statement presentation between *zakat* and *non-zakat* while the application of *Shariah* is on the distribution to the right *zakat* recipients as commanded in Islam. The second one is commonly practiced in most SIRC.

In terms of the accounting treatment of *zakat* funds, acquiring assets for *zakat* management is the main concern, that it might be different from one SIRC to another, subject to the *fatwa* committee. One SIRC accountant respectively in the South and Central explained:

*“The entire fund from zakat collection should be distributed to the right recipients (asnaf) and indeed, could not be recognised as assets and in this instance, cash basis is pertinent. In fact if assets were used in managing zakat such as motor vehicles and computers, they should be treated as capital expenditure”. [AC9]*

*“Although we use accrual basis, items such as zakat use cash basis as required by the fatwa”. [AC4]*

A SIRC accountant in the North<sup>1</sup> provided a specific transaction:

*“If a motor vehicle was used for muallaf, the asset will be recognised as an asset for the allocated muallaf instead of an SIRC asset”. [AC4]*

In other words, the acquired asset is also part of the distribution for the recipients of *zakat*. In SIRC North<sup>2</sup>, assets bought using the *zakat* collection

fund are treated as part of *zakat* disbursement, and recognised as assets to *zakat* recipients. In recording *zakat* funds, cash basis is appropriate rather than accrual basis. Such an exemption applies to certain scenarios, highlighted by an SIRC accountant in the South:

*“The use of accrual basis is applied if actual expenses are more than expected revenue”.* [AC9]

The excess of actual expenses out of budgeted revenue could be the reason for using an accrual basis. As agreed by all respondents, fatwa takes precedence over accounting standards in SIRC reporting.

*“Although we use accounting concepts, we are not allowed to follow them 100% because we are Shariah compliant and use fatwa in our reporting”.* [AC4]

Relating to other Muslim revenue such as *waqaf*, an accountant in the Central SIRC explained:

*“We have two types of waqaf; namely general and special waqaf, consistent with Shariah”.* [A1]

She explained that an example of special *waqaf* is *istibdal*. The *istibdal* concept is applied in replacing endowed land with other tangible property of an equivalent value. This practice is translated into usual accounting language when recording the transaction. The response indicates that accounting practices are based on the qualitative characteristics in accounting, as discussed in Section 5.2.3.

#### **9.4.3 Zakat reporting**

As Allah is believed to be the main stakeholder of SIRC, *Shariah* should be complied with to show obedience to Allah as posits in Islamic accountability views (Hamid *et al.*, 1993). These two factors, which are

recognised as Islamic, are transformed in the practice of SIRC reporting. In particular, this was pointed out by an accountant in the Central region:

*“Islamic thought influences the content of SIRC reporting in the financial statements especially in relation to zakat, waqaf and mal, such as the distribution of zakat funds and how waqaf and mal are managed”. [AC2]*

This notion has also been supported by the majority of the respondents, for instance:

*“In the financial statements, preparing and recording zakat funds and waqaf are influenced by Islamic thought”. [AC3]*

*“Muslim revenue derived from zakat, waqaf and mal elements should be reported based on the Islamic thought because baitumal concept is based on the Islamic treasury”. [AC7]*

*“We split zakat collection from general income and this matter is reported indicating that we follow fatwa to ensure Shariah compliance”. [AC4]*

Apart from the zakat collection, distribution was seen as a more important element in reporting than collection. Two accountants highlighted this:

*“The public is very much concerned with the distribution rather than collection”. [AC7]*

*“Based on my reading, zakat reporting should disclose information such as the number of recipients based on the types of recipients”. [AC1]*

In contrast, two accountants were concerned with both zakat collection and distribution:

*“Details of the collection of types of zakat funds and distribution of categories of zakat recipients are shown in the annual report. This includes undertaken activities and the amount of distribution. Such a report is usually required by the fatwa members on our board”. [AC4]*

*“Dissemination of such information might increase the public trust especially the potential zakat payers, which will boost zakat collection. This has been proven since they reported on their Facebook”. [AC7]*

The mixed findings of the expectations of zakat funds in terms of collection and distribution show that the demands of stakeholders vary. In order to build trust among the public in discharging SIRC accountability, the more

disclosure there is the greater the confidence in SIRC. This is to respond to the Islamic accountability and even transparency which has been encouraged in the Western society. However, a researcher (C1) representing the public, claimed that *zakat* reporting is insufficient if it is just about collection and distribution of *zakat* funds. He suggested elements such as effectiveness, efficiency and impact are also important to measure performance (see Section 9.7.1). The needs of such performance are also highlighted in previous studies (Dunne, 2013; Hooks *et al.*, 2012; Tooley and Guthrie, 2007).

Indeed, this study suggests that despite the content of reporting being characterised by *Shariah*, it should be considered beyond the routine practices of compliance with the government accounting standards, and following the guidelines. Being accountable as the sole trustee of Muslims' wealth, SIRC should be transparent to better discharge their accountability. This study views an annual report as a comprehensive medium to be seen as accountable, consistent with many disclosure studies (Odainkey and Simpson, 2013; Dhanani and Connolly, 2012; Siraj, 2012; Tooley and Hooks, 2010; Goddard, 2005; Coy and Dixon, 2004).

### **9.5 Problems in preparing annual reports**

In preparing annual reports, two types of problems were identified, external and internal factors. The former is less significant than the latter as mentioned by two SIRC accountants in the North (AC4 and AC6).

### 9.5.1 External factors

External factors include lack of enforcement in reporting and lack of reporting guidelines.

#### 9.5.1.1 Lack of enforcement in reporting

When there is no enforcement in the preparation of the annual report, the National Audit Department (NAD) will not take into account the annual report as part of the checklist for auditing. This has contributed to the inconsistency or absence of annual reports, a point which was highlighted by both an auditor and a researcher (AU2 and R1).

*“Problems of the absence of annual reports might possibly be resolved if there is enforcement in the provision of enactments in the state government”. [AU2]*

*“Such enforcement drives SIRC to prepare annual reports because they have to do it”. [C1]*

The enforcement can be driven by either the internal top management or an external higher authority. Several accountants mentioned that if the CEO makes an annual report compulsory, the management has to prepare its annual report without needing any additional reasons. One regulator said:

*“SIRC in federal territory, for instance, are required to prepare an annual report in addition to financial statements; they do it consistently. However, this requirement does not apply to other SIRC”. [R1]*

This study also found that the annual reports of SIRC1 were prepared consistently and could be easily accessed on their websites, but this was not the case for other SIRC. Furthermore, SIRC2 in the Central region started preparing annual reports in 2005 and have published them consecutively to date; they are also available on its website (see Section

8.2). Its accountant mentioned that this was due to enforcement from the top management, supporting Daniels *et al.* (2010), which suggest that enforcement is related to high disclosure. In fact, only these two, SIRC1 and SIRC2, had online reporting. This may suggest that both SIRC, which are located in the Central region are more aggressive. This is probably because of their size, with a high collection volume, similar to large charity bodies in the UK (Connolly and Hyndman, 2004). On the other hand, perhaps lack of enforcement might contribute to the absence of annual reports among other SIRC. This indicates that SIRC have treated voluntary disclosure as if it were mandatory, when there is an enforcement of an annual report (Hope, 2003), encouraging the preparation of an annual report.

#### **9.5.1.2 Lack of reporting guidelines**

In Malaysia, there are no accounting guidelines for *zakat* and *waqaf*, highlighted by an accountant in SIRC in the East Coast<sup>2</sup> (AC4).

*“When we started preparing the annual report in 2008, there were no guidelines or specific format. All departments were instructed to report their undertaken activities, like myself to report financial matters. So, we had no sources to refer to and indeed it is all our own creativity”.* [AC11]

However, a National Auditor mentioned:

*“Numerous efforts have been undertaken to prepare specific accounting standards. Lack of agreement from the fatwa in each state, in addition to the different provisions of state enactment has contributed to the difficulties in standardising reporting for SIRC”.* [AU2]

Such lack of agreement was probably due to the different size of SIRC in terms of collected *zakat* funds and their needs in a state. SIRC in the Central region, North, East Coast and South has various backgrounds of local fund providers and recipients. Therefore, the most effective practices

to deal with the management of a *zakat* fund are unique and distinct from one SIRC to another. This might influence the *fatwa* decisions in each state.

One regulator (R1) elaborated on the development of the Malaysian Government Treasury Circular (MGTC), guidelines for the preparation and presentation of financial statements and annual reports. The circular refers to MGTC4/1994 which was introduced in 1994. This applies to statutory bodies at federal and state level. In this instance, the federal statutory bodies refer to SIRC in federal territory while other SIRC are positioned under the respective state government. The circular was revised in 2007 as MGTC4/2007 replacing the previous MGTC in 1994. This provision was mentioned in Act 240, Statutory Bodies Act 1980, which indicates that all government agencies are required to prepare financial statements. These financial statements must include five distinct elements, namely: Balance Sheet, Statement of Income and Expenses, Cash Flow Statement, Notes to the Accounts, and Statement of Equity Changes. Given the above explanations, however, it should be noted that only a financial statement is required, but not a comprehensive annual report.

In relation to the guidelines, at the federal level, the Prime Minister's Department i.e. *JAWHAR* monitors the roles of SIRC. Another regulator (R3) states that *JAWHAR* does not prepare any specific reporting guidelines for SIRC. However, they do provide a template form to gather data for collection and distribution of *zakat*, so as to update data in the database in *JAWHAR*.



Remarkably, the uniqueness of SIRC raises conflicts between government reporting requirements, *Shariah* and public discourse, as illustrated in the following observation:

*“...being an Islamic institution should lead to different or at least some differences in the reporting system compared to other government bodies because Muslims have to uphold amanah (trust) which in English is termed responsibility and accountability..[C2]*

SIRC seem to have difficulties in preparing annual reports as they are different from other government entities especially in relation to *Shariah*, besides the sophistication of accounting tasks mentioned by Heijden (2013). They need to have specific guidelines to help them to prepare annual reports to satisfy a wide range of stakeholders. Likewise, Anderson and Findlay (2010) recommends such guidelines in addition to those outlined in the International Public Sector Accounting Standards (IPSAS). However, an accountant in the Central4 disagreed, stating they did not have a problem with the guidelines. He mentioned that although in practice there are some differences, it is not so distinct from other government entities in terms of reporting. It merely requires additional information in the reporting. This response is consistent with the results found in the questionnaire that 60% of the respondents said there is no difference in SIRC reporting from other government agencies.

#### **9.5.2 Internal factors**

Internal factors are: the attitudes of top management; lack of staff in SIRC; difficulties in preparing annual reports; and transformation of SIRC organisations.

#### **9.5.2.1 Attitudes of top management**

An enforcement of reporting (see Section 9.5.1.1) from the top management could affect reporting practices. If they are serious about the preparation of an annual report, this will help to resolve its absence. However, the issue now is who the leaders are and to what extent they are aware of the importance of the annual report for discharging SIRC accountability.

One SIRC accountant in North2 responded:

*“Traditionally, the state enactment provides that the top leader of SIRC is also a director in the Department of Islam. He is a civil officer. However, it was amended in 2010. The state Ruler, His Royal Highness, appointed a corporate person as the CEO to lead our SIRC”. [AC4]*

He further acknowledged that the power of a CEO is great without any political intervention and bureaucracy, especially in distributing the trusted funds. This implies that a restructuring process has been proven to have influenced reporting practices in SIRC. In the case of North4, reporting has improved tremendously (see Table 7.2) after the new leadership style and expectations of the leader. The top management in an SIRC usually consists of corporate people, state *mufti*, *fatwa* scholars and top officials in the state government such as state secretary, legal advisor and accountant.

Despite the various backgrounds of top management in SIRC, the political agenda is seen to be another factor that might influence reporting practices. If the leader is a political person, they tend to disclose more (see Section 4.3.3), which could be in the electronic media, press or both, in order to win more votes from the public (Laswad *et al.*, 2005), consistent with political economy theory.

### **9.5.2.2 Lack of staff in SIRC**

When the accountants were asked about the absence of an annual report in some years, one of them mentioned the lack of staff.

*“Prior to 2008, there was only an assistant accountant with no accountant here. After that, only an accountant was appointed and the first accountant improved the annual report like the corporate annual report. I was the second accountant, appointed in 2012”. [AC4]*

However, an accountant in the South (AC9) denied the inadequacy of staff in preparing annual reports; instead she mentioned the difficulties in preparing an annual report, which needs coordination and cooperation across all departments in the organisation.

An accountant in the North (AC7) highlighted the staffing problems. Civil officers in the SIRC are appointed by the state government on a contractual basis. When there are staffing warrants from the Department of Public Services (JPA), the status of a job is changed from a temporary to permanent status. Consequently, employees are probably not comfortable with the contract basis of employment, which may contribute to the high staff turnover and the lack of staff in the SIRC. Nevertheless, staffing was not considered to be a problem by a researcher:

*“They have lacked staff for the last fifteen years. They will lack staff for another 15 years. That’s the excuse. JPA has already revised the allocation number of staff in SIRC. It was significant, anyway”. [C1]*

In that instance, an accountant in the North mentioned:

*“Prior to 2000, we had a shortage of staff in the accounting department and we don’t even have an accountant. However, it has changed since then as it attracted the attention of the former Malaysian Prime Minister, Tun Mahathir”. [AC6]*

The responses from interviewees imply that staffing influences their reporting practices, which should be brought to the attention of the top management in SIRC (Abdul-Rahman and Goddard, 1998).

#### **9.5.2.3 Difficulties in preparing annual reports**

The preparation of an annual report consists of financial and non-financial reports; indeed it does not involve just the finance or accounting department. One SIRC accountant in Central2 mentioned:

*“The accounting department focuses on the financial statement which should be submitted to the National Audit Department in April every year.”[AC2]*

He added that most SIRC have subsidiaries and the account should be consolidated. A financial statement is more important than the annual report. Preparing the financial statement is faster and more objective than annual report and the former is mandatory and will be audited.

The same reason was also forwarded by another SIRC accountant (AC11) in the East Coast. She mentioned that all departments should get involved; it is not just a financial report. They have to compile non-financial activities and achievements, so it might be difficult to publish. Exclusively financial statements pose no problem as they should be presented to EXCO in SLA every year. Relating to this point, a SIRC accountant in the South suggested:

*“The Public Relations Department is a suitable unit to be responsible for preparing an annual report. Cooperation from every department however, is important to provide information on the financial and non-financial activities undertaken in their departments, the main problem for preparing an annual report. But actually, since we have an IT department, it could be resolved by establishing a database for activities and programmes undertaken”. [AC9]*

Nevertheless, databases are also problematic. Another SIRC accountant (AC4) in the North highlighted that there was a challenge in their computer system. They use a self-developed database which involves *zakat* assessment and data about *zakat* distribution. In his example, after distribution of *zakat* funds has been approved, it will be recorded in the system, namely: *e-syura*. The IT department is involved in the entire process of application, investigation and approval. The problem raised here is that the developed system could not match the required data, or else some errors occurred in generating the data. Therefore, they had to carry out the recording process manually. This was a problem previously but it has been steadily improved. Similarly, an SIRC accountant in the East Coast<sup>1</sup> also mentioned:

*“In preparing the annual report, starting from April 2015, we will initiate a new computerised system. The existing computerised system is for zakat, and other funds are separated for different usage. For instance, the fund for amanah is a trusted fund donated by the public or other corporate organisations for a specific reason such as victims of flood and natural disasters”.* [AC12]

The annual report in East Coast<sup>1</sup> has been produced consecutively from 2010 to date (see Section 8.2). As such, the use of technology is believed to be an important tool in any task (Deakin and Wakefield, 2014). In this case, the preparation of the annual report is encouraged and speeds up the process of recording and generating each department’s report for further compilation. The comprehensive database that includes financial and non-financial matters is believed to facilitate the preparation of the annual report so as to reduce a co-ordination problem across departments.

#### **9.5.2.4 Transformation of SIRC organisations**

In some states, SIRC are also known as *Baitulmal* and have a small number of staff. The roles of the Baitulmal are not obvious, as they are recognised only as one unit under the Department of Islamic Religion in the state.

One SIRC accountant in the North claimed:

*"We are in a transformation process. MAMPU has prepared a strategic plan for us to uphold the roles of SIRC as inspired by his Ruler. As a result, the score accountability index has been improved from time to time". [AC7]*

As an annual report covers financial and non-financial information from each department and related organisations, restructuring could result in an intervention of the annual report. Another SIRC accountant in the EastCoast2 clarified that they had not prepared annual reports for the last two years because of the restructuring process. She added:

*"Our SIRC is the first state restructuring its organisation". [AC11]*

Several religious state departments such as the Department of Islamic Religion, Department of Justice *Shariah*, Department of *Mufti*, are still undergoing restructuring. She said that her organisation had not received approval from the Department of Public Service to recruit staff. The last annual report was prepared in 2011 and it has not been prepared since then due to the ongoing restructuring.

The restructuring was decided following the Congress of Rulers (*Kongress Majlis Raja-Raja*) in 2011, which aimed to strengthen religious institutions and combine all Islamic religious institutions under the Royal Highness in each state. This is to facilitate religious dealings where the SIRC is

appointed as a policy maker, and other religious departments under SIRC are implementers of SIRC policies.

Despite the external and internal problems discovered here, all respondents agreed that an annual report should be prepared. One SIRC accountant in the South commented:

*“In my personal opinion, it is essential to prepare an annual report. In fact, this matter has been raised by our BOD. We did prepare an annual report a few years ago, but after several comments given by our CEO for improvement, we have yet to respond to it and even until now, we have not prepared an annual report. Alternative to the annual report is a quarterly discussion with the BOD on financial management”. [AC9]*

A similar approach was used in SIRC North3, which was explained by its accountant. She commented that in 2014, a financial committee was established to monitor all financial activities, so the accountant needed to prepare a performance report every two months. The committee encompasses members from corporate organisations, which is steered by a corporate leader. A researcher commented on the constraints of preparing an annual report:

*“..if we do it efficiently, it is not about the amount of information that we provide. The information could be very basic for the staff but more importantly, is actually that SIRC should understand their role and responsibility. The way I observed SIRC, they are run like government departments but are really an NPO as well”. [C1]*

He added that if SIRC adopted an appropriate mentality, reporting would come naturally; otherwise, it was just a concrete issue, whether it was mandatory or voluntary. Therefore, these findings imply that despite the various internal problems in SIRC, enforcement could mitigate the lack of disclosure (Md Zain, 2005). Having the best practice of reporting reflects agency theory, stakeholder theory and political economy theory.

## **9.6 Mandatory reporting issues in SIRC**

SIRC are state statutory bodies which were established under state enactments in the respective state (except SIRC1). SIRC1 was recognised as a federal statutory body under the Ministry of Finance (MOF) at federal level. Treasury Circular 4/2007, which was issued by the MOF, ensures that an annual report is required by every federal statutory body and this provision applies to SIRC1. This requirement however, does not apply to other SIRC; these were established under state enactment in the respective state.

All SIRC are audited by the National Audit Department (NAD) or *Jabatan Audit Negara (JAN)*. Although they are not required to prepare annual reports (except SIRC1), a financial statement is mandatory and is audited by the JAN. As there is no enforcement of the preparation of a comprehensive annual report in the provision of state enactment, an audit certificate is issued based on financial statements, not the annual reports.

Within the banner of public accountability underlying the present study, numerous groups of stakeholders had mixed opinions on the mandatory issues of annual reports for SIRC. This section provides discussions on the mandatory issue of the annual reporting for SIRC from the viewpoint of accountants, regulators, auditors and academia.

### **9.6.1 Arguments against mandatory annual reports**

There are a number of constraints on mandatory annual reports for SIRC. Some of the arguments against are based on the boundary of power between federal and state government, sensitivity to religion, audit



requirements and the heavy burden placed on SIRC to prepare the annual report.

#### ***9.6.1.1 Boundary of power between federal and state government***

The main reason for non-mandatory annual reports for SIRC is due to the boundary of power between federal and state government as cited by a regulator:

*“The boundary of power between federal and state government is the main reason for the annual report not being mandatory”. [R1].*

If SIRC1 is required to prepare an annual report, it is not applicable to SIRC in other states. She added that SIRC1 is a federal statutory body whereas other SIRC are state statutory bodies. They are subject to the legal provision within their regional state enactment. In terms of reporting, only SIRC1 is required to prepare an annual report every year according to Treasury Circular 4/2007 issued by the federal Ministry of Finance (MOF). Other SIRC are not obliged to prepare annual reports since they were established under the Secretary of Government at their respective regional state levels.

An auditor (AU2) explained that audit work is based on the checklist provided as per the state enactment, including financial reporting standards, financial management accountability index (see Section 1.2), and decisions made by the *Fatwa* Council in the SIRC BOD. Another auditor (AU3) further elaborated on the financial statements which cover only financial implication. However, providing only a financial statement is insufficient to explain the accountability of SIRC in comparison with an

annual report, which is more comprehensive. Despite the limitation, R1 claimed:

*"As an auditor, I just audit financial statements of SIRC because it is mandatory, unlike annual reports. Ideally, the financial statements should be prepared according to the accounting standards. However, the accounting standards do not cover some of activities in SIRC such as zakat, waqaf and baitulmal. In other words, there is no accounting standard for zakat, waqaf and mal. Alternatively, an auditor will refer to best practices of accounting which have been issued by JAN, NAD, JAWHAR and JAKIM, introduced in 2003. Although the best practices of accounting could be used by SIRC, they are still subject to the SIRC themselves. In fact, the best practices are not very clear in some activities, especially waqaf". [R1]*

She provided an example of the ambiguity of the guidelines, referring to *waqaf* property; *waqaf* involves no transaction because it is donation in the form of property for endowment purposes. However, if SIRC do not declare the property, this is not a mistake and will not affect their audit certificate because there is no enforcement of the best practices of reporting for SIRC.

The said guidelines on the reporting for SIRC was raised with JAWHAR.

*"JAWHAR does not make any policy in matters related to roles and responsibilities of SIRC. For all matters pertaining to Islamic administration, responsibility falls under the power of the state government as provided in Federal Constitution, Schedule Ninth List 2". [R3]*

Indeed, the preparation of annual reports is subject to the respective SIRC.

She explained that probably the guidelines referred to the best practices of financial management for SIRC, but not specifically for reporting. Therefore, it seems there is no specific provision in relation to annual report preparation and presentation for SIRC (Ihsan and Adnan, 2007). The boundary of power across states has led to difficulties in coordinating guidelines for reporting at federal level. Hence, greater flexibility of reporting is appropriate due to the uniqueness of enactment in every SIRC.

However, they should take this opportunity to advertise their improved transparency, found in the present questionnaire results (see Table 7.12) rather than taking it for granted due to the absence of enforcement.

#### **9.6.1.2 Sensitivity to religious matters**

An annual report is a detailed document explaining the operations of SIRC within the boundaries of Islamic thought, especially in terms of generating funds and their spending. Such information is crucial to the contributors (Wahab and Rahman, 2011) but provides contributors with a sense of funding (Goddard and Assad, 2006). This might include sensitivity to religion as mentioned by Kamla (2007), stressed personally by one auditor and regulator (AU2 and R1), which has contributed to the mandatory issuing of annual reports for SIRC. An auditor explained:

*"SIRC are Islamic organisations and any faith-based organisation will be audited by the national auditor in the respective religions, although this is not stated in any legal provisions. As such, it shows the sensitivity of religion is embedded in the auditing process, which also might influence the mandatory issue of annual reports for SIRC". [AU2]*

In addition, a national accountant said:

*"Personally, as Malaysia is a multi-race nation, in order to avoid sensitivity that might arise in relation to religion, it is sensible to make the financial statement mandatory rather than to have a comprehensive annual report. The details of activities of SIRC could be circulated to Muslims only". [R1]*

She added that currently, bulletins on the activities undertaken have been distributed to *zakat* payers quarterly by the majority of the *zakat* centres, established by the respective SIRC themselves. The bulletin explains activities conducted and how the collected *zakat* fund has been spent and distributed to the recipients.

This practice has been supported by two SIRC accountants:

*"..I agree because the public would like to know in detail about SIRC and it is part of their accountability to provide such information via the annual report. Bulletins and internet disclosure are additional mediums, but the main one is the annual report because it covers a year's activities. If the report is prepared in addition to bulletins, this is ideal". [AC1]*

Moreover, another SIRC accountant said:

*"An annual report should be prepared for various stakeholders to inform the implemented responsible people. If only financial statements are prepared, they might not understand all the activities. Therefore, I agree if the comprehensive annual report is prepared, which includes matters such as waqaf, Ar-rahnu (Islamic pawn), zakat and loan and is available to the entire public".[AC11]*

#### **9.6.1.3 Burdensome to SIRC**

An auditor (AU2) believed that the preparation of an annual report was a burdensome task (Goddard and Assad, 2006), especially in compiling and writing activities for every department of the reporting entity. The challenging part was to coordinate the report, which requires cooperation from all departments. He said that due to the difficulty, SIRC focused on the mandated financial statements. Likewise, another SIRC accountant stated the difficulty in preparing annual reports compared to mandated financial statements as follows:

*"A preparation of the annual report requires all departments to report their activities, not just financial matters, which is difficult. As for the financial reporting, although we do not prepare annual reports, we still need to report in SLA and EXCO every year, which requires a compilation of a financial report for approval". [AC11]*

Therefore, he further suggested:

*"A template to prepare annual reports might encourage SIRC; this should be prepared considering non-accounting people so that it is understandable". [AU2]*

In spite of the constraints of mandatory comprehensive annual reporting in SIRC, a Professor of Accounting (C1) stressed that reporting is about

awareness of SIRC themselves in terms of their responsibilities and accountability; they should be seen to be accountable through being transparent as agreed by the respondents (see the results in Table 7.25) rather than through enforcement. Indeed, he suggested that an existing practice of an annual report for SIRC could remain non-mandatory. The most important step was to make SIRC aware of their roles, not just as government agencies, but also as NPO with religious obligations (Jacob, 2005).

### **9.6.2 Arguments for mandatory annual reports**

An Assistant Professor of Accounting argued:

*"An annual report for SIRC should be made mandatory by the higher level of authoritative bodies such as JAKIM, the Prime Minister's Department or the Ministry of Finance, or all of them. This is to prove to the public that SIRC are very transparent and are held accountable. This is to preserve a good image of Islam". [C2]*

Her argument also cautioned that it concerned accountability in Islam which claims to be transparent. Other arguments for mandatory annual reporting for SIRC were accountability discharge, preservation of image of Islam and being trustworthy.

#### **9.6.2.1 Accountability discharge**

An auditor highlighted the importance of making annual reporting mandatory so as to encourage the public discharging of the accountability of SIRC. He mentioned:

*"An annual report should be provided to the public especially zakat payers to explain the operations and activities of SIRC. To accounting people, surplus SIRC fund indicates positive financial management and these can be used to finance other activities in future. However, this gives issue to non-profit organisations in which inquiries about the accountability discharge of SIRC might be raised in distributing the collected zakat, which is not profit*

*oriented, the usage of funds, and reasons for the increase and decrease of collection and distribution of funds". [AU2]*

The above statement highlights several inquiries in SIRC that might be raised in the absence of a comprehensive report. An accountant in SIRC elaborated on the surplus of *zakat* by giving an example:

*"Let's say we received zakat funds on 10/2/2015 for RM1000. The money should be distributed at the latest by 9/2/2016 to fit a-year (haul) period. Why was there a surplus in the financial statement? This is because the accounting period covers the period from 1/1/2015-31/12/2015 and zakat payers usually pay zakat during Ramadhan or before the end of December every year. When they pay at the end of the year, while we close our office at 5pm, any payment received by 4.30pm is accepted but definitely we are unable to distribute it and for that reason there is a surplus in the zakat reporting". [AC4]*

In that instance, having a clear explanation from a particular SIRC would avoid any misunderstanding on the SIRC's accountability in distributing the *zakat* collection. An annual report is one of the mechanisms to resolve such negative inquiries into the SIRC accountability consistent with the disclosure theories in the present study (see Section 4.3). The comprehensiveness of annual reports could explain both financial and non-financial matters as suggests by Ntim *et al.* (2016) which would eventually support the mandatory requirement for annual reports. This would facilitate understanding of financial positions and operations of SIRC to different backgrounds of users.

#### **9.6.2.2 Preservation of Islamic image**

According to an Assistant Professor in Accounting (C2), SIRC are known as Islamic organisations which mark them as one of Islam's ambassadors in Malaysia. This requires proper accountability and transparency so that the public will respect Islam as a religion. In particular, how Islam upholds the

principles of integrity, transparency and justice should comply with *Shariah* rules, in terms of the management of SIRC funds. SIRC activities are observed by all Muslims and non-Muslims. She additionally claimed:

*"..if anything went wrong, people might pick up on this and see Islam as a not good religion which supports other people who have already tarnished the image of Islam in our country". [C2]*

An accountant in SIRC4 (AC4) added that an annual report could avoid any negative perceptions about an SIRC as an Islamic organisation. He took an example by stating that although there were a huge number of *zakat* collections, there were still many Muslims in Malaysia who requested fund assistance from churches and temples. For that reason, the public started questioning the role of SIRC in managing *Zakat* distribution to those Muslims in need. Consequently, the scenario might stigmatise the image of Islam in the eyes of non-Muslims. This indicates that the lack of transparency in SIRC might raise dissatisfaction among the Muslim public; the more viral this impression becomes in the media the more the image of Islam will be tarnished and lead to the failure of SIRC being good ambassadors of Islam. The reputation of SIRC as a mirror image of Islam has been put forward and should be brought to the attention of SIRC top management.

For instance, the SIRC accountant (AC4) highlighted that in 2014, the CEO of SIRC4, announced in the local media how much *zakat* collection and disbursements and other activities were undertaken. This was to prove to the public that SIRC had not used *zakat* collection funds, but that they had been distributed through proper channels to the correct *zakat* recipients. The detailed report in terms of *zakat* collection and distribution to the

numerous categories of recipients was reported in the board meeting, which was their main concern. This is consistent with the stakeholder theory that recommends SIRC meet the expectation of stakeholders. They are held accountable to the SIRC board of directors for performance accountability as posits by Stewart (1984).

#### **9.6.2.3 Being trustworthy**

The final argument for mandatory annual reporting is to encourage the publication of annual reports without any excuse. Importantly, such a report was believed by respondents to enhance trust from the public. Lee (2004) asserts that a vigorous public reporting could increase the confidence of the public in their activities. An accountant in SIRC11 commented:

*"...in order to increase public trust, we have to disclose our activities for the year to public". [AC11]*

Another accountant (AC1) stressed the public accountability which explicates the right for information about the reporting entity, also highlighted by Goddard (2005). An accountant in SIRC 11 added that if the public would like to know about the SIRC, an annual report could be provided without hesitation, because it had been gazetted in the State Legal Assembly (SLA). If an annual report is not presented, only financial statements could be provided.

The financial statements are limited to figures explaining financial aspects and are not comprehensive. In this case, trust is less likely to be obtained given the limited information dissemination about the extent to which the SIRC are held accountable. As a result, many examples of negative inquiries



about SIRC have been reported in several local media (see Section 1.3). Therefore, enhancing trustworthiness is important for the non-profit organisations (Iyer and Watkins, 2008) like SIRC.

The issue of mandatory reporting in SIRC is pointed out by a Professor in Accounting (C1). He stated:

*“...whether an annual report should be mandatory or voluntary to me is secondary. I think what should drive SIRC is not rules and regulations; what should drive it is accountability; this is the number one. Secondly, what should drive SIRC is actually the education aspect; it should be part of their responsibility as well and I believe if we focus too much on annual reports as a mandatory requirement then they have to do it, and they will do it”.*[C1]

This implies that understanding the responsibility and accountability of SIRC is more important than enforcement of the annual report. The discussion on reporting should be treated as promoting the Islamic accountability (Baydoun and Willett, 2000), rather than a regulatory debate. C1 further argued that the voluntary nature of *zakat* payment in Malaysia without incurring a penalty for not paying *zakat* is unlike tax, explaining why the annual report mandatory is inappropriate.

Apart from the mixed opinions on the mandatory nature of annual reports for SIRC, an accountant in SIRC7 highlighted:

*“Any activity implemented through distribution of zakat funds is to seek confidence from the public. We try our level best to fully distribute the funds to all recipients (asnaf) and in fact our CEO, together with other state government agencies, is also involved. They went to the rural area for delivering the zakat funds and the activities were published on our Facebook. We give information about our activities on our Facebook, and as a result, our zakat collection has increased. This indicates the public, especially zakat payers, do trust us”.* [AC7].

The key finding here is that although SIRC have played their roles, these roles should be reported to the public to obtain their trust. An Assistant Professor, also a researcher stated:

*"There is nothing that should be confidential about SIRC. So, why not just disclose and disseminate the information. Even in Islam, we have the issue of whether we should be avoiding fitnah (defamation)". [C2]*

The above argument is consistent with the element of Islamic accountability as stressed by C1. C2 elaborated that if any information is the public's concern, which has been questioned for some time, it is ideal for SIRC to publish it, so as to avoid *fitnah* for better perception on SIRC. This supports the theme of the present study under the banner of public accountability, in particular to identify information expectations of the Muslim public as the SIRC's stakeholders.

From the above discussion, there are three arguments: boundary of power between federal and state government; sensitivity of religious matters; and the high burden of preparing annual reports, which could elaborate on the reasons of the non-mandatory nature of the annual report. However, it is still sensible to highlight that an annual report is essential, in addition to the mandated financial statements. More potential funding contributors would be attracted to SIRC due to better discharge accountability, and preserve the image of Islam through the SIRC being trustworthy.

## **9.7 Key issues in evaluation of the annual reports of SIRC**

This section provides discussion on the stakeholder's perceptions regarding reporting practices found in the scores of SIRC annual reports in Chapter 8 (see Table 8.2). Stakeholders were asked in general about the absence of

the main disclosure items against the expected information disclosure. The responses from the interviewees addressed the disclosure items that should be disclosed, and those disclosed in the annual reports. Such cross-data analysis allows comparison between the content analysis and interviews in order to validate and enhance interpretation of the findings.

From the interviews, it was identified that non-financial and *zakat* reporting were the disclosure items most demanded from the SIRC annual reports, but were the least disclosed. One interviewee, representing the public in this study highlighted:

*"There are many types of information required, such as not only the amount of zakat that is paid or distributed by the SIRC, but also how good the effect and impact was of the distribution for the poor. We always measure in terms of input, output, how much money we collect, how much money we disburse, how much we spend on projects we create for the poor, but we have not measured these in terms of effectiveness, efficiency and outcomes of the zakat being contributed by zakat payers. So, I think the focus in Malaysia is very much on input and output measures not efficiency, effectiveness and outcome measures. I think that is actually what we are lagging behind on". [C1]*

Therefore, preparers were asked to explain the lack of such disclosure in the areas of performance and *zakat* reporting, and regulators and researchers were exposed to discuss both topics specifically. Accountants in the SIRC were also aware of public expectations. One accountant in SIRC North4 (AC7) noted that the public were very keen to know more detail rather than just about the collection and distribution of *zakat*. This implies a need for performance measurement elements and *zakat* reporting for SIRC to respond to the public's inquiries. This will be discussed next.

### 9.7.1 Performance reporting

A Professor of Accounting viewed performance reporting practices in Malaysia as best described as follows:

*"Performance reporting is yet to become part of our routine motives. To a certain extent, public sector accounting in Malaysia is still lagging behind in a way that is affecting the zakat authority as well. But, what concerns me is actually, the question of whether we can measure efficiency, effectiveness and outcome? Yes, we can". [C1]*

The responses are consistent with the content analysis that reveals SIRC had a lack of performance disclosure. Instead, the content analysis showed that they were more likely to disclose items in the financial statement (see Table 8.2 for the disclosure scores). As the present study underlies a public accountability theme, fulfilling the public information expectation is a concern. The performance reporting practices and their measurement are the focus. C1 also expressed the following view:

*"The element of public accountability is where we have to identify our potential stakeholders. Now, we have to start with the needs of the stakeholders and then, we have to move backward. What are the needs of the stakeholders? For example, if we identify zakat payers as the stakeholders, then we need to identify their needs". [C1]*

An SIRC accountant in SIRCNorth4 (AC7) mentioned that the *zakat* payers were more interested in the distribution of *zakat* than the collected *zakat* funds. This is a similar argument to Bakar and Rashid (2010). C1 stated that if the stakeholders are *zakat* payers, we can measure the efficiency of *zakat* collected. This would help to provide the appropriate measurement of efficiency of a *zakat* authority.

According to C1, it could be measured financially by a calculation of the amount of *zakat* distribution over *zakat* collection. This is consistent with the basis of measuring efficiency in charities and NPO (Sulaiman *et*

*al.*,2009; Connolly and Hyndman, 2004). The more funds distributed out of the *zakat* that have been collected, would indicate the more efficient the SIRC are. Another example of efficiency measures was given by C1. He stated that in the same way there is a calculation of *zakat* distribution over *zakat* collected, which could be computed as a measure of efficiency in *zakat* distribution.

This indicates that there are possibly other ratios to signify the efficiency measurement as highlighted by C1. In contrast, the difficulty of measuring performance was mentioned by several SIRC accountants in the Central, North and East Coast regions. Indeed, discussions between SIRC accountants and academic members would be useful to get a clearer idea of what kind of measurement could be adopted.

When the SIRC accountants were asked about reporting on the efficiency of *zakat* spending and collecting using ratios (similar to the efficiency measurement used in this study), the majority of them were in agreement. Initially, some of them mentioned that users might not understand the ratios but they agreed that interpretations of each ratio could better explain the reported ratios. Furthermore, an accountant in SIRC North4 (AC7) emphasised the performance report to explain reasons for increases and decreases of the amount of *zakat* collection and distribution.

This was supported by another accountant in the SIRC Central1 who added that information beyond the financial report should be disclosed to the public, supporting Ntim *et al.* (2016). She argued that not all SIRC had annual reports (seeTable8.1) and there were various constraints, especially

internal problems (see Section 9.5). For those SIRC that had one, it did not necessarily mean that the report satisfied the public. One accountant in the SIRC Central<sup>2</sup> commented:

*"In my opinion, the absence of some information disclosure items was due to the lack of knowledge. Probably, the report preparers do not know about the information disclosure that should be prepared and disclosed in the annual report". [AC2]*

Indeed, the dilemma here was identifying the information disclosure that should be disclosed in the SIRC's annual report. This study aims to respond to this dilemma in line with stakeholder theory. An interviewee known as one of the public (C2) highlighted that the findings in this study should be shared with SIRC accountants and the Accountant General Department, to suggest the best reporting guidelines for SIRC. This is because after considering feedback from the SIRC accountants, regulators and the public including academia in relation to normative accountability, the needs of a majority of stakeholders could be satisfied. One accountant in the North<sup>3</sup> stated:

*"First and foremost, the vision, mission and chairman's statement should be disclosed according to the pre-identified format. To me, a financial report should be disseminated to the public. If we provide only a financial report, the public might not understand. It should include reports on activities and achievements, receivable income and spending and this is more detail than financial statements". [AC6]*

The above statement indicates that in addition to a financial statement, non-financial information is also important. A similar view was also shared by another accountant in the SIRC North<sup>4</sup> (AC7). She claimed that the public, especially *zakat* payers, would like to know in detail about yearly *zakat* collection and disbursement. She noted that performance measurement could address the expectations of the public, who are more

demanding nowadays about the SIRC's performance, not just input and output. Her response is consistent with the arguments made by Dunne (2013), Grosso and Van Ryzin (2012), Taylor (2006) and Tooley and Guthrie (2007) that the performance reporting should include a wider scope of measurement such as effectiveness, efficiency and productivity.

Nevertheless, from the interviews with SIRC accountants, ineffective enforcement of performance reporting is evident in the decision not to disclose performance reporting among SIRC. If stringent enforcement were in place, the SIRC's attitude towards preparing performance disclosure might be improved. For instance, an accountability index rating score (see Section 1.3) does not take into account performance reporting or even annual reporting. An accountant in SIRC Central<sup>3</sup> suggested that one of the criteria in the rating could consider annual reports, to encourage a comprehensive report including performance reporting. Furthermore, another accountant in SIRC North<sup>1</sup> stated that the attitude and background of top management, especially the CEO, have an influence on the report content. In this case, Political Economy Theory (see Section 4.3.3) could explain the needs of performance reporting of SIRC in relation to the political agenda and economic impact to the public.

In response to the attitude of top management, an accountant in SIRC North<sup>4</sup> (AC7) asserted that her CEO had established a financial committee in 2014 to monitor financial management. The committee consisted of corporate leaders from the private sector and others who were civil officers. The first appointed chairman of the committee was a corporate

leader. The accountant had to prepare a performance report every two months for the committee. The report covered collection and spending of SIRC funds, which emphasises the reasons for the increase and decrease in the reported figures.

An interviewee (C1) as a researcher stressed that there were many ways to measure and report performance: for example, efficiency, effectiveness and outcomes measured quantitatively using a number of different types of ratio. The insufficiency of performance reporting is an important matter, considering the stakeholders are not only the individual *zakat* payers, the so-called Muslim public, but also corporate payers who are always critical of SIRC, representing either the existing or potential payers. Gaining the trust of those who do not pay *zakat* is a problem. The existing and potential payers, both individual and corporate, might be attracted by obtaining their trust (Yasmin *et al.*, 2014).

In Malaysia, previous studies found that an ability to attract corporations to pay *zakat* on business has not yet been fully utilized (Rahman *et al.*, 2012). An interview with C1 elaborated:

*"If they (corporate) are our stakeholders, then we have to identify their needs. For example, the amount of zakat on business wealth collected during the year divided by the total number of zakat recipients during the year. Then what you get is actually the utilization of zakat from business wealth for each and every zakat recipient to that particular state". [C1]*

This response implies that the information expectations of *zakat* payers among corporate payers, namely companies, should not be neglected in SIRC. They are very demanding payers; as C1 specified, for each cent of *zakat* fund paid into an SIRC they expect to see that it has been distributed.



Then, out of the *zakat* recipient who has received *zakat* money, how much per *zakat* recipient of the *zakat*, from business wealth that was collected, has been distributed to the poor.

As such, it is believed that reporting this level of detail would raise the consciousness of companies and encourage them to pay *zakat*. Therefore, SIRC must consider both individual and corporate *zakat* payers in reporting *zakat*. They should not focus just on individual *zakat* payers, otherwise it might discourage *zakat* collection from business, as argued by Rahman *et al.* (2012) and Bakar and Rashid (2010).

One might say that the basic information from a newsletter would be sufficient if it is for individual *zakat* payers. However, that might not be the case for corporate *zakat* payers such as Islamic banks and *takaful* companies. C1, who represents the public, states that *zakat* from business, was not well collected. He argued:

*"...they (corporates) are very critical, I know some Islamic banks who decided not to pay zakat to SIRC. Some Islamic banks in Malaysia decided to distribute on their own to the poor because they don't trust zakat authority. They prefer giving zakat direct to the poor through their own programs to help the poor". [C1]*

It shows that although those business institutions have *zakat* obligations, many of such *zakat* funds are not being paid to SIRC due to the lack of trust in them. The reasons were explained by C1:

*"...it is mainly because the information provided is not geared towards corporate zakat payers, which has led to lack of trust in SIRC. To the BOD of Islamic Bank, they want to see the full information such as the impact, not just payments. They don't want to see how much money has been paid to zakat authority, but what they are interested in is the impact of money given to the poor, and how many benefit. That's what the trend is now. If the zakat authority is not able to provide information that satisfies them, I*

*think many more Islamic banks and takaful firms will not be paying to a zakat authority". [C1]*

Responses from the SIRC's accountants did not mention the *zakat* from business. Although there are several types of *zakat* (see Table 3.3) that might be incurred by corporations, *zakat* on income (salary) represented a higher proportion of collection compared to *zakat* from corporations. That could be the reason for it not being discussed by the SIRC accountants in the interviews.

In conclusion, from the interviews with SIRC accountants and the public, it can be inferred that the difficulty in measuring performance might result in the lack of performance reporting (Connolly and Hyndman, 2003). Although there is a challenge in dealing with expected measurement, there are ways to measure *zakat*. SIRC might have incentives for performance reporting if they believed it would have a positive impact, particularly on *zakat* collection and in portraying the good name of the SIRC leaders.

From the theoretical perspective, this situation is in line with three theories underlying the present study: Agency, Stakeholder and Political Economic Theory (see Section 3.3). In relation to performance reporting, the first theory promotes performance reporting as being essential so as to minimize information asymmetry between SIRC's managers and their stakeholders. The second should satisfy the stakeholders' expectations. The third should recognise the public's right to information about SIRC, which calls for government intervention to encourage performance reporting.

### 9.7.2 Zakat (alms) and waqaf (endowment) reporting

Previous literature found that the administration of *zakat* in Malaysia is administered under the management of SIRC in each state, either the subsidiary of a SIRC or *zakat* centre, to collect or distribute, or a combination of both. For instance, an accountant in SIRC Central3 (AC3) stated that they only collected *zakat* funds while the distribution tasks were assigned to its subsidiary, which was known as *Baitulmal*, and that acted as an *amil* (the administrator of *zakat*). One-eighth of the *zakat* collection was allocated for *Baitulmal* and the remainder was distributed to the predetermined *asnaf* (recipients) as commanded in the *Quran*. This matter had been highlighted by its fatwa committee as part of SIRC policies. In regard of *Baitulmal*, the accountant also said:

*“An amil has a wide scope of tasks in relation to zakat management, which involves distribution, recording and maintaining zakat funds. Baitulmal is our amil. We are now preparing profiling for residents in our state to identify asnaf accurately, so, we don't have to look for the zakat asnaf with the presence of the database. This idea has been inspired by our State Chief Minister and we aim to have the database ready this year”.* [AC3]

The use of a database in the SIRC Central3 could help to identify the best recipients, especially the poor and people in need. This could address an issue raised by the public regarding undistributed *zakat* funds and ensure that they are distributed properly to the *asnaf* in line with *Shariah*. Other responses to show that SIRC follow *Shariah* in their operations and reporting *zakat* were:

*“In our SIRC, we do collection and 1/8 of the zakat funds are contributed to us as amil and the remaining balance will be assigned to 'general funds' as stated in our policy through the SIRC fatwa committee”.* [AC3]

*“We apply Islamic concepts in reporting. For instance in zakat, we prepare separate accounts for zakat but in the financial statements, we consolidate*

*into a group account. In practice, however we create separate funds between zakat and non-zakat". [AC1]*

*"...influence of fatwa on the reporting, is only in determining eight asnaf<sup>97</sup>. But, as for the asnaf riqab (slaves), that portion is disbursed to other categories of asnaf (since there are no slaves nowadays). We follow both accounting standards and opinion from fatwa". [AC9]*

Despite the religious obligation for SIRC to follow *Shariah*, there is a conflict between religious obligation requirements and government reporting frameworks. A Professor of Accounting, who represents the public, commented:

*"...because zakat institutions in Malaysia are subject to government reporting requirements, we are basically stuck. I use the word stuck within that sort of framework that we already have. Unfortunately, in the case of zakat we also have religious obligations". [C1]*

He also pointed out the failure of the government in outlining guidelines for reporting specifically for SIRC:

*"...they think zakat is only paid by individual zakat payers. They don't think about zakat in companies, Islamic banks and so on. Now, the sophistication of the users especially Islamic banks today, are paying a lot of money per year, and looking at whatever guidelines are issued by the government. They never really think seriously about satisfying the needs of so-called Muslim business companies like Islamic banks. Ok, so their needs are now very different. If you are just thinking about individual zakat payers, I think whatever we provide does not satisfy the corporate business as well as Islamic banks. I think that is actually another dimension". [C1]*

A similar view applies in performance reporting in which the practices of reporting do not consider corporate *zakat* payers (see Section 9.7.1). The reporting guidelines issued by the government, Treasury Circular 4/2007, is offered to the entire government entities. In this case, the guidelines are not sufficient (Ismail and Bakar, 2011) for the corporate *zakat* payers, such as companies and Islamic banks. Ihsan and Shahul (2007) and Hisham (2006) suggest guidelines in SORP for UK charities to be used for SIRC. This

<sup>97</sup> See Section 2.3.4.3 - Recipients of *zakat*

study used such SORP as a basis to develop the disclosure index (see Appendix A).

As part of the religious aspect, the uniqueness of *zakat* management affects its reporting. This is because *zakat* funds can be used only for the eligible recipients (*asnaf*) and should be distributed in the same calendar year (see Section 2.3.4.3).

An accountant in the SIRC Central1 (AC1) said that separate accounts are prepared for *zakat* and *waqaf*. She further explained that accounts for *zakat* funds are separated from other fund accounts but they are seen in the financial statement as being combined with other funds. This is because the SIRC consolidate all of the group accounts. As a result, an accountant in SIRC North1 (AC4) noted that SIRC Central1 combined its financial statement between *zakat* and other revenue. After that, it is separated into collection or disbursement accordingly and this applies also to expenditure.

In contrast, it was found that SIRC North1 (AC4) had a different presentation in which they had a single income statement solely for reporting *zakat*. Its accountant elaborated that they separate the *zakat* income statement from other income. He added:

*“We state in the notes to the account that we use fatwa as our guidelines to comply with Shariah. We bought assets as disbursement but the asset does not belong to us. For instance, we acquired a motor van for the use of muallaf (new reverts) among the aboriginal people. We declared the motor van as assets for the muallaf rather than our own assets. We use cash basis in recording zakat”. [AC4]*

The above explanations highlight reporting and accounting aspects pertaining to *zakat*. It indicates that in addition to the use of accounting principles, SIRC have to follow *Shariah* through *fatwa* decisions in those matters which have financial implications. Such presentation is highlighted in the first point on the notes to the account, whereby they state that their financial statement is prepared based on *fatwa* and *Shariah*. In fact, *Shariah* takes precedence over the accounting standards (see Section 8.3.2) and this is accepted by the auditor.

The independent income statement as part of the financial statements of SIRC North1 was acknowledged as an obviously different presentation across SIRC. However, other SIRC have a single presentation of the entire financial statement in which they include their *zakat* reporting, for example SIRC Central1. There was no single presentation of *zakat* reporting in the same way as SIRC North1.

An accountant in SIRC Central2 (AC2) highlighted that the content of reporting, especially on *zakat* matters, and even its fund management such as collection and disbursement, was greatly influenced by the *Shariah* council member on its SIRC, which was also the BOD. However, an accountant in SIRC South2 (AC9) mentioned that the *fatwa* did not have much influence on the reporting, only on the *zakat* collection and disbursement. This probably implies that the reporting only takes into account the *fatwa* decisions that might affect their financial statement, as meant by AC9. Yet, one might say that *fatwa* still have an influence on

*zakat* reporting since the revenue and spending must be in line with *Shariah*.

In terms of accounting treatment, a SIRC accountant in Central2 claimed that although there was a manual of financial management for SIRC that might help to prepare *zakat* reporting, there was no enforcement. Thus, its usage was not compulsory, but rather it was subject to the suitability of the SIRC. He added that the main reason for different accounting treatments of *zakat* was due to the lack of accounting standards and guidelines, similar to issues found with charities and NPO (Connolly and Hyndman, 2001; Ihsan and Shahul, 2007; Cordery and Baskerville, 2007). For instance, an accountant in Central3 provided an example of property acquired using *zakat* money. It cannot be capitalised like that of a normal accounting treatment, instead it should be treated as revenue expenditure. Likewise, an accountant in SIRC North1 provided an example of accounting treatment for *waqaf* and *zakat*:

*"A Mosque is a waqaf property. While zakat fund cannot be capitalised, waqaf is declared as a property contribution". [AC4]*

This shows that *waqaf* and *zakat* are treated differently in disclosing the transactions. As for the *zakat*, a similar accounting treatment can be found across SIRC for acquired assets using *zakat* funds, which should be treated as revenue expenditure. However, different accounting treatments were revealed in SIRC South2; they recorded such assets as capital expenditure.

The accountant stated:

*"...acquired assets like motor vehicles and computer using zakat funds for zakat management should be disclosed as capital expenditure". [AC9]*

This means that if the *zakat* fund had been used for distribution to the *asnaf*, it was recorded as revenue expenditure whereas if for the use of administration of *zakat*, it was recorded as capital expenditure. She further explained that all revenue was recorded and any expenses are eventually for distribution to *zakat* recipients as stated below:

*"As for the property assets such as fixtures and fittings, buildings, land and other facilities for operational, we do not report them in our group zakat funds. A zakat fund group consists of any collected zakat, which should be distributed entirely, not being treated as our assets". [AC9]*

This indicates that when reporting *zakat* funds, they should be distributed entirely and the collection does not denote assets to SIRC. Meanwhile, the basis of accounting used in SIRC is a cash basis, as practiced in the government. However, an accrual basis might be used considering SIRC are a corporate entity, as suggested in the accounting standards. The accrual basis also applies when the exceeded budget is greater than the revenue.

This was mentioned by an accountant in SIRC South<sup>2</sup>:

*"...as for revenue and expenses, we use the same accrual basis in managing zakat funds as that in the normal accounting treatment, in the case where actual expenses exceed budgeted revenue".*

This is in line with the *zakat* concept; SIRC treat *zakat* funds as revenue expenditure instead of part of their assets. A mixed practice of accounting treatments of *zakat* in SIRC was noted by an accountant in SIRC<sup>2</sup>. He commented:

*"The absence of accounting standards for zakat is the main reason for the lack of standardisation in accounting and reporting zakat and waqaf across SIRC in Malaysia". [AC2]*

Such difference was also due to the uniqueness of the organisational structure of SIRC. For instance in SIRC North<sup>3</sup>, its accountant explained that they did not manage *zakat* themselves. She pointed out:



*"We are different from other SIRC. We are the only SIRC that delegate zakat management under a different entity known as the Department of Zakat, with an independent accountant. Our tasks include management of Baitulmal and waqaf as well as zakat fund". [AC6]*

The Department of *Zakat* in the state was established specifically to manage and administer *zakat* affairs, and in fact they have their own state enactment with independent board members and administration. However, it is still under the patronage of the State Ruler. Due to the independent management of *zakat*, SIRC North3 only prepares accounts in relation to *baitulmal* and *waqaf*. This makes for a distinct financial statement presentation by SIRC North3 compared with other SIRC.

However, in SIRC North3, there is a *mufti* scholar, as a board member who is responsible for decisions relating to *Shariah* as in other SIRC. Any doubt in the board meeting is finalized by the mufti through the Department of Fatwa in the state. If it is related to financial issues, the accountant highlights that it would be disclosed in the financial statement. An example of *Shariah* as advised by the mufti is about *waqaf*. Its accountant (AC6) specified two different types of *waqaf*: general *waqaf* and special *waqaf*. The general *waqaf* was used for the benefit of local Muslims in the state but not other states. Therefore, the fund was allocated and disbursed accordingly. An example of special *waqaf* was land for paddy fields, which were endowed for paddy plantation. The land could be rented to designated tenants who were farmers. The farmers should then pay for the rented land to SIRC.

Nevertheless, according to the accountant, there are many cases of default on rental payment. Therefore, the SIRC could possibly allocate bad debts.

However, when this matter is referred to the state fatwa, no allocation of bad debt is allowed for the special *waqaf*. The debt must be collected and its accounting treatment explained:

*"We combine the uncollected rental for the land contra with other revenue from Baitulmal, and this matter will be presented in the Baitulmal Committee Meeting. The debt is treated as being paid by the Baitulmal".* [AC6]

She further provided another example of special *waqaf*, a *Maktab Mahmud* or Islamic boarding school. Any revenue from the school had to be recorded in the special *waqaf* account for that Islamic school and should not be mixed-up with other funds. Such accounting treatments for *waqaf* have been questioned by the Chief National Auditor and the accountant claimed:

*"...we follow guidelines from the Department of State Fatwa and this matter has been given consent by the General Audit Department".* [AC6]

The above discussion implies that *zakat* and *waqaf* accounting and reporting are greatly influenced by the decisions of State Fatwa and that the National Audit Department has compromised this aspect. Indeed, it can be seen clearly on the financial statement, that Islamic thought could characterise the content of the financial statement and annual report as a whole. This finding is in line with results found in the questionnaire which infers that 60% of the respondents agreed with this notion.

The main issue with *zakat*, according to *Shariah*, is that the *zakat* fund must be distributed during the current year. This is always being questioned by the public and other inquiries about SIRC that have been reported in the local media (see Section 1.3). The reason for undistributed or surplus *zakat* funds was explained by an accountant in SIRC North1

(AC4). It is because of a timing issue between receivable and accounting closing time at the end of the year. If the collected *zakat* is received just before the closing time at the end of the financial year, there is not sufficient time to disburse the money. The undistributed funds from *zakat* collections then become surplus, which leads to the undistributed *zakat* issue that might be raised by the public (Yusoff and Densumite, 2012).

Other complaints were also noted by another accountant. In response to the inquiries from the public, an accountant in SIRC North3 commented:

*“The public will complain if SIRC revenue is high and will question how much has been spent on the public. In this instance, our SIRC is not involved in the zakat; instead our revenue comes from waqaf and baitulmal. Our funds are not very much like zakat; instead they are made up of revenue from faraid (inheritance). Therefore, our contribution to the public is on a one-off basis, unlike zakat which comprises regular financial assistance to the asnaf”.* [AC6]

Therefore, complaints about SIRC North3 were different from other SIRC. Its accountant highlighted that *zakat*-related matters are forwarded to the State *Zakat* Department whereas only matters related to *waqaf* and *Baitulmal* would be entertained by the SIRC. Other Islamic matters are dealt with by the Department of Islamic Religious Affairs in which SIRC is the only policy maker but not the implementer, the reason that the Islamic Religious Department has more staff than SIRC. AC6 provides an example of the contribution of SIRC North3. Using *baitulmal* funds, every hospital in the state has received two dialysis machines since 2011. Another common complaint about SIRC North3 was regarding the collection of fund donation for religious schools. However, the complaint was put forward to the Department of Islamic Religious in the state as designed in the state organizational structure.

As a result of the uniqueness of SIRC organisations, an annual report is seen pertinent to explain about the structure, activities and achievement of SIRC so as to address public dissatisfaction. An accountant in SIRC EastCoast3 (AC12) suggests that an annual report is essential for a large organization with high income because there was a lot of available information about the reporting entity. Her argument supports the regression results in this study, in which size was positively significant with the annual report disclosure (see Section 8.51).

For instance, SIRC Central2 was known as a large SIRC, for the year 2011 and 2012; their annual reports were combined because there was a delay in preparing the financial statements. It shows their routine motive to prepare an annual report. On the other hand, the reason for the two years having a combined annual report was unclear. The accountant did not mention specifically the rationale, but instead stated that it was related to unavoidable constraints. Such secrecy is also found in other charities (Sinclair *et al.*, 2009).

In SIRC East Coast3, preparation of the annual report was begun in 2011 and its accountant stated it was useful for strategic planning in the future.

However, she pointed out:

*"Apart from the annual report preparation, in which data is extracted manually commencing this April, we will have a new database system".*  
[AC12]

She explained that *zakat* has a computerized system, namely iMAS. Others have three types of account: i) *amanah*, which is a trust fund generated from other organisations to be distributed, for instance, disbursement for

flood victims; ii) general *baitulmal*, which is funds from general sources; and iii) *baitulmal*, which is a fund for management and administration of SIRC, such as salary and operational expenditure. Both the manual system and new database apply to *amanah* and *baitulmal* accounts.

An accountant in SIRC North4 (AC7) mentioned that recruitment in the state government including SIRC was opened on a contractual basis. After the warrant had been issued by the Department of Public Service (JPA), it was then made permanent. Both staffing and ICT matters were believed to encourage the preparation of an annual report, supporting arguments made by Heijden (2013) and Mussari and Monfardini (2010).

One accountant in SIRC East Coast2 (AC11) agrees that an annual report should be prepared to include a wide range of information for all users. The comprehensiveness of the report includes various activities being implemented by SIRC. She highlighted that they deal with *zakat*, *waqaf*, *ArRahnu*. The latter is translated to Islamic pawn, and loans to local Muslims. This reveals that apart from the main task of SIRC in managing *zakat*, *waqaf* and *mal*, their roles were more aggressive in generating funds through commercialization (see Section 2.3.3). This was called a proper disclosure, like the one for companies. Similar to the view of Baydoun and Willett (2000), SIRC Central1 (AC1) suggests that the annual report of SIRC should show detailed items. The items should include the number of *zakat* recipients and its categories (see Section 3.3.4.2 for the types of *zakat*). As an alternative to such reporting, an accountant in SIRC North4 stated:

*“Every department in our SIRC has to prepare its own bulletin to be distributed to the public and using social networking such as Facebook in order to supply information about activities to the wide range of stakeholders”.* [AC7]

She further explained the importance of both financial and non-financial information that should be disclosed. Her justification relies upon the Islamic treasury in which each element should be reported. In the case of *zakat*, she stressed that the public were interested to know details of *zakat* disbursement to improve socio-economic conditions in the state, and to attract more *zakat* by obtaining trust from the public at large.

To sum up, *zakat* reporting is another concern that differentiates SIRC from other government entities, NPO and charities. Religious obligations in terms of *zakat* have mainly led to the uniqueness of *zakat* reporting in characterising the content of reporting and the SIRC routine operations, especially in both *zakat* collection and disbursement. This is in line with the individual accountability as posited in 'sense/internal accountability'<sup>98</sup>, which argues that values influence human practices, although without regulations or enforcement. Therefore this study suggests that reporting for SIRC is about being aware of the necessity to be held accountable and be seen accountable (Gray and Jenkin, 1993), supporting the comprehensiveness of annual reports.

## **9.8 Chapter summary**

This chapter has discussed the third research objective of the study, specifically to investigate the factors affecting the expectations and practices of disclosure in the SIRC annual reports. In general, the reporting

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<sup>98</sup>Section 2.2.3 explains about sense accountability at length.

practices of SIRC are influenced by two major factors: firstly regulations, in other words accounting standards and state *fatwa*, secondly the perceptions of auditors and individual points of view.

Furthermore, the interviews explored in depth the influence of Islamic thought on the reporting practices as highlighted in the questionnaire results (see Section 7.4.4). The findings can be classified into three types of influences: Allah is the main stakeholder; *Shariah* compliance; and *zakat* reporting. The first two result from religious regulations, whereas the latter is the main concern of SIRC reporting, since *zakat* is the main income of every SIRC in Malaysia. Nevertheless, the current reporting practices among SIRC are not consistent due to a lack of guidelines in preparing and presenting annual reports for SIRC. Since the annual report is a voluntary disclosure, mandatory financial statements have been the main focus; indeed, they were prepared consistently and scored higher than other voluntary disclosure items (see Table 8.2). This is similar to the results found in the questionnaire on the importance level of disclosure items for SIRC (see Table 7.24).

The interviews with preparers also indicate that internal problems are the most serious compared to external ones. This finding does not support the interview responses with regulators and the public. In fact, they have different views in terms of enforcement, which implies a reasonable justification for mandatory annual SIRC reporting. Abundant points from the interviews for arguments against mandatory annual reports are pointed out by preparers, regulators, auditors and the public, namely: the

boundary of power between federal and state government, sensitivity to religious matters, and being burdensome to SIRC. On the other hand, arguments for mandatory annual reports include accountability discharge, the preservation of the Islamic image, and being trustworthy.

Although the issuance of annual reports was not violating the law, a majority of the stakeholders highlighted the importance of annual reports, in addition to the mandatory financial statement, and therefore it should be prepared. The external stakeholders and even all the SIRC accountants agree. Although some of the SIRC have never prepared an annual report, they still acknowledge that it is essential as highlighted by one of the non-preparers in SIRC North5:

*"In the absence of our annual report, it does not mean the annual report is not necessary". [AC7]*

The current situation of a low standard of reporting across SIRC in Malaysia could be better explained using the theoretical perspectives as suggested in this study, namely: agency, stakeholder<sup>99</sup> and political economy theory<sup>100</sup> (see Section 3.3). The theories suggest that in order to satisfy various stakeholders, the most frequently requested information by stakeholders, namely performance and *zakat* reporting, should be improved, possibly by intervention of government regulations. This calls for co-operation from the SIRC top management, regulators and auditors to resolve problems in preparing a normative annual report.

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<sup>99</sup> to minimise principal-agency interest in terms of available information, to satisfy disadvantaged stakeholders.

<sup>100</sup> to appreciate the public's right for information by intervention of government regulations.



## **CHAPTER 10 CONCLUDING REMARKS**

### **Conclusions, limitations and future research**

#### **10.1 Introduction**

This research investigates the perceptions of stakeholders concerning accountability within Malaysian State Islamic Religious Councils (SIRC). The rationale of the study stems from the notion of public accountability, where every citizen has the right to receive information about public entities, and how they carry out their obligation to accountability. The uniqueness of SIRC as religious organisations within the public service setting has triggered the focus of this study.

This chapter ends the present thesis with a summary of the main points. Section 10.2 summarises the present research including research objectives and the main findings for each, and methods used. Sections 10.3 and 10.4 respectively highlight the contributions of the study to knowledge, practice and their implications. Section 10.5 identifies the limitations of the study and Section 10.6 suggests avenues for future research.

#### **10.2 Summary of the research**

The three research objectives posed in the present study have been achieved using different research methods in three stages: firstly to identify the perceptions of stakeholders in relation to accountability within State Islamic Religious Councils (SIRC) in Malaysia through the questionnaire survey, secondly to identify the determinants of the

disclosure of information in the SIRC's annual reports through content analysis and regression, and thirdly to investigate the factors affecting the current practices of disclosure in the SIRC annual reports through interviews. This study uses a mixed method of quantitative and qualitative approaches within a philosophy of pragmatism. The findings for each objective are reported in Chapters Seven, Eight and Nine respectively. The next section summarises the main findings according to the sequential stage of the method to achieve each research objective.

#### **10.2.1 Review of the questionnaire results**

The results of the first stage in this study have been reported in Chapter Seven. The two research questions were, i) What are the stakeholders' perceptions of SIRC in relation to accountability? and ii) What are the expectations of information disclosure in the SIRC's annual reports to discharge their accountability?.

The results explain accountability in general, Islamic accountability and accountability within SIRC, primarily in terms of 'to whom' they are held accountable and 'why'. The meaning of accountability was found to be similar for internal and external stakeholders. However, there are different views of accountability within SIRC. The stakeholders perceived that SIRC should be reported differently from other governmental entities because of the influence of Islam. Undoubtedly, SIRC should be subject to unique external reporting, especially concerning *zakat*, in order to meet the expectations of stakeholders.

Concerning information expectations from the SIRC, this study suggests that more than 90% (fifty-three) of the items of disclosure information were regarded as being very important by stakeholders whereas only about 10% (four) items were regarded as being quite important. These were: the chairman's statement, information on ratio of rental income, personnel, and personnel development. Moreover, there was no significant difference in information expectation between SIRC and external stakeholders. Indeed, all these disclosure items were used in the regression, to identify the determinants of the SIRC's disclosure.

#### **10.2.2 Review of regression results**

The results of the second stage of this study, involving multiple regression has been reported in Chapter Eight. This was to answer the following research question: Do the specific financial characteristics of SIRC, namely size, liquidity, leverage, profitability, and efficiency have a significant impact on the extent and quality of SIRC's disclosure?

The extent of disclosure has been evaluated on the basis of each disclosure item against expected information in the questionnaire. Next, the quality of disclosure was assessed based on the qualitative characteristics adapted from Beest *et al.* (2009). Multivariate analysis was used to answer the research question. In the regression analysis, three dependent variables of score disclosure were used namely, the annual report, 'the' non-financial and financial statement disclosure. This study reveals that size and accessibility were closely associated with the extent and quality of SIRC's disclosure. Size was significant for both the extent and quality of disclosure

in the annual report and non-financial disclosure. Therefore, H1a and H1b are supported in Model 1 and 2. However, this was not the case for the financial statement disclosure. In the analysis, although size was found to be significant in Model 3, the negative coefficient contradicts the positive expectation in this study. The positive sign implies that larger SIRC are more likely to disclose in their annual report, especially in terms of non-financial disclosure. It was concluded that the annual reports are heavily differentiated in terms of the extent and quality of non-financial disclosure among SIRC rather than by their financial statements. Therefore, in this study, there is evidence to support the influence of SIRC's financial characteristics on the extent and quality of disclosure, especially when it is [size-related to the annual report and non-financial statement. This supports both agency theory and political economy theory.

Three control variables, state-ownership, locality and accessibility, were used in the regression models. The financial statement was the most frequently significant variable in relation to accessibility, which supports both agency theory and stakeholder theory. Therefore, this study suggests that mandatory financial statements and voluntary non-financial disclosure have different determinants of disclosure. A non-financial report appears to have more impact on the financial incentive determinant compared to financial disclosure.

This study indicates that national regulation and social contexts such as religion have been proven to have had an impact on disclosure practices (Aldrugi & Abdo, 2014; Hussainey and Al-Nodel, 2008; Archambault and

Archambault, 2003). In order to obtain in-depth explanations of the current practices and bases of SIRC's reporting, further investigation was undertaken in the interviews.

### **10.2.3 Review of interview results**

The third stage of this study consists of semi-structured interviews conducted with SIRC accountants, policy makers and users, such as auditors and the public, in response to the last objective i.e. to answer: What are the factors affecting the expectations and current practices of disclosure in the SIRC's annual reports?

Five issues emerged from the interviews. Firstly, regarding factors influencing the perceptions and current practices of information disclosure, most respondents agreed that the main basis for disclosure in SIRC was accounting standards, decisions of State *fatwa* and expectations of both audit and individual perceptions. Secondly, concerning Islamic influence on the content of reporting, the majority of respondents believed that the SIRC's reporting practices were heavily influenced by Islamic thought especially for *zakat*. Thirdly, external and internal problems in preparing annual reports; where it was inferred that the internal problems are more serious. Fourthly, mandatory reporting issues in SIRC can be sub-grouped into arguments against and for a mandatory annual report. Fifthly, there were key issues in preparing the SIRC annual reports, which consisted of non-financial and financial statement disclosure. This study suggests two issues of reporting that should be highlighted, performance measurement and independent reporting for *zakat* and *waqaf*. The importance of

performance was also agreed upon by SIRC members; in stage one of the questionnaires.

Several findings resulting from the regression analysis in relation to the determinants of SIRC's disclosure were addressed in the interviews. Two factors, size and efficiency, were often referred to. The findings from the interviews indicated that size was considered the main reason for SIRC deciding whether the preparation of an annual report was essential or not. If SIRC have a considerable *zakat* collections, their reports are more detailed, in particular concerning the activities for distribution of the *zakat* funds. As such, this is consistent with results in the regression in which size was found to be positively significant for an annual report, non-financial disclosure rather than financial statements.

Another factor mentioned in the interview was efficiency, which is used in the regression analysis using *zakat* distribution ratio. Although it was not significant in the regression result, findings in the interviews provide additional interpretation to the statistical results. The responses imply that the efficiency of *zakat* distribution is required by the public, despite its insignificant determinant of disclosure.

On the other hand, accessibility was not mentioned directly as the determinant of SIRC disclosure in the interviews, which suggests that they do not appear match the regression results. The accessibility was indicated referring to an annual report. The majority of annual reports included the financial statement in the report. Those few without, provided the financial statement separately. From the multiple regression, this study suggests

that more information appeared to be disclosed in the financial statements when an annual report was produced.

Based on these findings, several factors could not be explained in the regression and questionnaire analysis but were highlighted in the interviews. Some factors were even congruent. Therefore, interview findings in Chapter Nine complemented the quantitative results in Chapters Seven and Eight. Overall, the findings of the questionnaire, regressions and interviews appear to achieve the main aim of this study, which is to empirically investigate the perceptions of stakeholders about accountability within SIRC, and their current external reporting practices.

### **10.3 Contributions of the study**

#### **10.3.1 Contribution to knowledge**

In relation to the first objective in this study, the findings contribute to the literature on the perspectives of accountability (Odainkey and Simpson, 2013; O'Dwyer and Unerman, 2010; Hall *et al.*, 2007; Hidayatul Ihsan and Adnan, 2007; Gray *et al.*, 2006; Lindkvist and Llewellyn, 2003). Specifically, it makes a contribution to literature on the complex meaning of accountability in general, Islamic accountability, elaboration of the accountability of SIRC and other related organisations such as faith-based organisations, charities, NPO, and government entities. Furthermore, this study contributes to disclosure studies, in particular by providing a set of information to be disclosed for SIRC. Moreover, related organisations might find the application of the developed disclosure index useful.

The findings related to the second objective contribute to the literature on disclosure practices of SIRC and other related bodies such as charities, NPO and government agencies. In addition, there is literature on disclosure determinants using regression analysis (Chiu and Wang, 2015; Chakroun and Hussainey, 2014; Aly *et al.*, 2010; Tooley *et al.*, 2010; Connolly and Hyndman, 2004; Coy and Dixon, 2004; Hooks *et al.*, 2002).

The content analysis of SIRC annual reports gives an insight into the extent and quality of their disclosure. Although there is growing research undertaken in developing countries, studies within a Malaysian context within not-for-profit organisations and the public sector are limited (Bakar and Saleh, 2011c). The present study focuses on comprehensive annual reports of SIRC rather than just mandatory financial statements or voluntary disclosure. Moreover, not only is the extent of disclosure measured, but also the quality of disclosure is evaluated, thereby responding to the call of study in quality of disclosure. The conclusions drawn from the regression analysis in this study are based on both the extent and quality of disclosure to ensure robust analysis. The findings of this study suggest that the extent of disclosure was found to be superior to its quality, which affected the final score of the annual report. Therefore, this study supports the majority of disclosure studies that call for input in terms of quality of reporting.

In line with the Malaysian Financial Management Accountability Index (see Section 1.2) which was introduced in 2007, items concerned with financial positions are investigated, such as *zakat* revenue collection, management



of funds in terms of liquidity, efficiency and surplus, as well as debts. This study contributes to knowledge on disclosure in the following ways:

Firstly, this study measures the disclosure of comprehensive annual reports, consisting of financial statements and non-financial disclosure. Such relative mandatory and voluntary disclosure is examined in a single study, unlike the majority of previous studies. Instead of adopting an existing disclosure index, this study used a self-developed index generated from the questionnaire survey to contextualise its results (Hassan and Marston, 2010) in relation to the expectations of SIRC's stakeholders.

Secondly, size was measured using *zakat* revenue collection, unlike previous studies which usually use total assets to measure the size of an organisation. This was pertinent because SIRC's main revenue is from *zakat* collection. This study reveals that size, in particular SIRC wealth, influences the extent and quality of disclosure in their annual report, specifically non-financial disclosure. The significance factor of SIRC's wealth in association of disclosure is similar to the findings of Laswad *et al.* (2005).

Thirdly, accessibility is another scarcely tested variable used in disclosure studies. This study suggests that accessibility has significantly influenced the extent and quality of disclosure. It implies that the easier the accessibility to financial statements, the more information is disclosed.

Finally, although state ownership was found to be significant to financial statement disclosure, negativity occurred despite positive expectation. The insignificant relationship of the extent of financial statement disclosure did not provide enough evidence to support this variable, which suggests that

a government owned entity had less incentive to disclose information in its financial statement. The negative association contradicts Amran and Susela Devi (2008), Gandía and Archidona (2008) but is consistent with Bushman *et al.* (2004). This study suggests a positive association is consistent with political competition within the public accountability paradigm.

Pertaining to the third objective of this study, the findings contribute to the literature on factors of disclosure and the basis of the reporting practices, using the interview data. Among the factors were regulation, religion, attitudes of top management, lack of staff, burdensome work and accountability discharge. The interviews suggest annual reports should be prepared considering performance information such as outcome, efficiency, effectiveness and productivity. Separate reporting for *zakat* is essential to show the breakdown figures of collection and distribution, practised by most SIRC. These findings could not be obtained in the regression analysis.

To the best knowledge of the researcher, the present study is the first to provide empirical study about religious influence on the comprehensive annual report by conducting a questionnaire survey, regressions and interviews in a single study. Previous studies were either conceptual, focusing on *waqaf* reporting or using two research methods (Afifuddin and Siti-Nabiha, 2010; Jacobs and Walker, 2004; Jacobs, 2005; Jayasinghe and Soobaroyen, 2009; Osman, 2010; Shahul, 2000; Siraj and Karbhari, 2014; Yasmin, 2014). Also, this study is the first to explore reasons for disclosure as non-mandatory.

This study relies on several theoretical perspectives on disclosure. Despite the three underlying disclosure theories, findings have also been proven using disclosure theories in various ways: for instance, information to be fairly distributed between advantaged and disadvantaged stakeholders (stakeholder theory), to minimise information asymmetry between management and the public (agency cost) and to obtain voting supports through disclosure (political-economy theory). All these three theories are in line with the public accountability paradigm and the Islamic accountability view, appreciating everyone's right to information using a full disclosure approach to enable an entity to discharge its reporting accountability.

Other findings that can be explained using disclosure theories are as follows: the extent and quality of SIRC annual reports, especially their non-financial disclosure, has demonstrated agency theory and political-economy theory (size). The agency theory is applicable to the extent and quality of financial statements (accessibility) in order to satisfy a wide range of stakeholders, as posited in the stakeholder theory. Therefore, this study reveals that agency theory, political-economy theory and stakeholder theory have been demonstrated here in different ways, as reported in Chapter 7 by a questionnaire to identify the stakeholders' information expectations, Chapter 8 by regression to identify the determinants of disclosure, and Chapter 9 by an interview to identify the factors that influence the SIRC's reporting practices.

Although the three theories can be explained in both quantitative and qualitative analysis of this study, the stakeholder theory appears to be the most relevant in explaining the findings in the interviews. These include the following accounting standard: Islamic influence on the disclosure and attitudes of top management to satisfy the positive image expectations of stakeholders and the public at large (Dhanani and Connolly, 2012; Coy and Dixon, 2004). The Islamic element can also enhance the disclosure theories. Overall, the use of several theories rather than a single theory in this study better explains the findings, and serves to provide a richer insight into the disclosure practices under scrutiny.

#### **10.3.2 Contribution to practice**

This study contributes to practice and should be of interest to SIRC and other related bodies such as charities, faith-based organisations and NPO. It provides a road map to suggest best practices of reporting, specifically for SIRC, to enable entities to discharge their reporting accountability.

The findings in this study might assist their top officials to understand the problems that inhibit the preparation of a comprehensive annual report, especially the internal factors (see Section 9.5.2). This is consistent with the findings in relation to accountability within SIRC, whereby they perceive that they are responsible to their Board for performance (see Section 7.5.1). Therefore, this should encourage the reporting of performance to external stakeholders as well as internally. Furthermore, the lack of disclosure found in this study on performance measures such as efficiency, effectiveness, productivity and customer satisfaction can also be mitigated.

The findings in this study can also be beneficial to standard-setters, contributors and funders as well as regulators.

Regarding standard setters, the Accountant's General Department of Malaysia (*Jabatan Akauntan Negara Malaysia or JANM*) might benefit from the findings in this study to promote the extent and quality of external reporting beyond the financial statement. Although it is noted that non-financial disclosure is not mandatory in the same way as financial statements, at least the guidelines of preparing such a voluntary disclosure can encourage SIRC to prepare a comprehensive annual report. In particular, lack of guidelines was found in this study to be one of the constraints for the absence of SIRC annual reports and lack of disclosure (see Section 9.5.1.2).

These findings are therefore very useful to help existing and future funders in making contribution decisions. Knowledgeable readers of annual reports can glean from financial statements (Connolly and Hyndman, 2013), the amount of distribution or any related information of interest. However, non-financial disclosure is still required by corporate contributors (see Section 9.7.1, p. 280), to motivate them to pay *zakat* directly to SIRC. Less disclosed information is regarded very important, and required by the stakeholders, including distribution of *zakat* funds, the impact of each activity undertaken, and financial ratios to measure efficiency, effectiveness and productivity quantitatively.

The findings in this study might also be of interest to regulators such as: Federal authorities, like the Law of Malaysia: Statutory Bodies (Accounts and Annual Reports) Act 1980, Act 240, Ministry of Finance, who issued the Malaysian Government Treasury Circular (MGTC 4/20007) and Department of *Zakat*, Waqaf and Hajj (*JAWHAR*, Prime Minister's Department (see Table 2.2). In view of the fact that SIRC are state-listed, the reporting guidelines provided by the federal government, especially about the voluntary non-financial statement, might provide a reference to SIRC. Such relevant Federal authorities have more regulated external reporting (Bakar and Ismail, 2011), similar to the interview findings of this study (see Section 9.4.1, p. 238). Indeed, the federal government, state government and the respective SIRC should confer to share ideas on their respective expectations and information needs from the perspectives of regulation and *Shariah*. An ideal means for better discharge of accountability would be more meaningful.

#### **10.4 Implications of the study**

Despite the numerous contributions of the present study, it is still necessary to consider both their theoretical and practical implications.

Theoretical implications arise from several theories used in this study, namely, agency, stakeholder and political economy theory, which steer the present research. Thus, the existing theories are enhanced in the study setting of unique SIRC as public service organisations within an Islamic setting. Within the banner of the public accountability paradigm, different views of the public are engaged.

For instance, the information expectation of SIRC involves management and principal (agency theory), top officials SIRC (political economy theory) and the public, appreciating the latter's right for information while considering Islamic accountability. This concerns the focal accountability to God (Allah) which emerges as the 'sense accountability'. Each person should be treated fairly from the powerful and disadvantaged people, as posited in stakeholder theory, consistent with Islamic accountability highlighted in this study. Such fairness is in line with the notion of a public accountability theme and Islamic accountability. Therefore, in this study, multiple theories are essential to explain disclosure in SIRC, to satisfy the expectations of a wide range of constituents with different interests.

SIRC were established within the Islamic setting, where the social context of Islam is pertinent to explain disclosure practices and their accountability context. Although there are many studies on disclosure and accountability, Islamic values seem to have been neglected. However, this study can provide empirical evidence on the existing disclosure theories and enhance the Islamic accountability concepts. Other faith-based organisations should also consider religion in their disclosure practices for discharging accountability. The lack of disclosure studies in relation to religion proves that this study appears to provide additional insight into Islamic accountability.

In terms of methodology, different dimensions of data collection could enrich the usefulness of mixed methods, especially a sequential mixed

method. The study begins with a questionnaire, then, content analysis and finally, interviews. The output in each stage provides clues as to the emerging issues to identify the appropriate research problem.

Quality of disclosure was measured by adapting Beest *et al.* (2009). The foundation of quality measurement is based on the qualitative characteristics of reporting frameworks, namely relevance, faithful representation, understandability, comparability and timeliness. Some of the criteria have been modified to suit SIRC operations (see Appendices C and D). Therefore, this quality measurement might be of interest of SIRC and other related bodies such as *zakat* and *waqaf* institutions, charities and other faith-based organisations.

In terms of practical implications, three proposals are suggested, which are to encourage the preparation of annual reports and to recommend best reporting practices. This may lead to increased fund-raising, especially on *zakat* by proposing standardisation and unifying reporting practices across SIRC.

SIRC should produce a comprehensive annual report to inform stakeholders about their activities throughout a year in a single document. It should be prepared in addition to a quarterly bulletin, issued by most SIRC. The comprehensiveness of such a report could be used to respond to the public's criticisms about the accountability of SIRC and to avoid criticism by politicians of SIRC top officials. Evidence is provided that, regardless of the size of SIRC and whether they have high or low *zakat* collections, an annual report is necessary. For instance, in the UK, in the



Statement of Recommended Practices (SORP) for charities, annual reports are required but the size of charities determines the extent of their annual report disclosure. The disclosure increases in direct proportion to the size (Charity Commission, 2005). This comparison helps to address the argument against issuing an annual report for SIRC with low *zakat* collection (see Section 8.6.2.3). Therefore, there is no reason for not preparing an annual report within the purview of public accountability.

The findings in this study have managerial implications, specifically about the extent and quality of current reporting practices in SIRC. Financial performance measures beyond the financial statement should be disclosed in annual reports. Based on the findings in this study, SIRC themselves perceived that they were accountable to their own board of directors for their performance. The other stakeholders perceived SIRC to be accountable to their donors for probity. Information related to performance is useful in satisfying the expectations of stakeholders, and as a result, this study recommends partial information of financial performance measures, which is the most customary, by the stakeholders. It is suggested that SIRC and other related bodies at national and international levels adopt best practice of reporting performance (see Table 7.24).

Additionally, management should be aware of the internal problems in preparing annual reports. An awareness of the importance of the annual report among top officials is required, so that they are able to support the team preparing the annual report. For instance, a sufficient number of staff

with necessary qualifications is required to assure consistent annual report publication that meets the expectations of users. SIRC should be able to monitor their performance in the eyes of the public at large through their external reporting. Subsequently, the report should be accessible and well distributed. Online reporting might be considered by SIRC as more transparent, to avoid any negative perceptions from the public.

This study also implies that the public is more interested in the distribution of *zakat* rather than the amount of *zakat* collected. The findings regarding the efficiency of *zakat* collection were found to be the determinant of SIRC disclosure. Their efficiency measures should be disclosed to attract more contributors, not just individuals but also corporate contributors such as banks and companies. Currently, it was observed that *zakat* on income is higher than *zakat* on business or corporate profits in every SIRC. Therefore, it is necessary to target more corporate *zakat* payers to boost the amount of *zakat* collection.

However, nowadays the corporate *zakat* payers are very demanding with regard to information on the efficiency of *zakat* distribution. Findings in this study suggest that performance achievements are the most required but the least disclosed in SIRC. In this case, quantification of performance measurement is essential. Financial performance ratios<sup>101</sup> could be used while the objectiveness of ratio calculations appears to facilitate the report preparation, thereby help to address the difficulty in measuring performance in SIRC. Interpretation of the ratio should be considered to

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<sup>101</sup> The financial performance ratios include *zakat* distribution/*zakat* collection, investment income/average income and administration cost/total expenses.

facilitate understanding and be more meaningful to readers of different backgrounds.

Finally, regulators could enhance their role by organising forums as a platform to share ideas between SIRC, state government, National Accountant and National Audit Departments to meet the needs of each set of constituents. This is crucial since the differences of each state regulations can possibly be reduced through following *Shariah* as focal accountability. Moreover, religious and accounting academics should be invited to harmonise disclosure to meet various needs. Their knowledge about SIRC, charities, Islamic accounting, and *zakat* reporting in local and international context might be useful to SIRC. The outcome from this forum would be used to suggest the best practice of reporting for SIRC. In sum, numerous efforts are still required to attain the normative disclosure of SIRC and this study might be of interest to SIRC, National Accountant and National Audit Departments.

### **10.5 Limitations of the study**

In addition to the restricted time available, resources were limited. Nevertheless, considerable efforts have been taken to ensure the designed research objectives are achieved by answering all research questions. Due to the small dataset of twelve SIRC studied out of fourteen, a triangulation method of questionnaire was used; this comprised, content analysis, regressions involving annual reports or if unavailable, financial statements, and interviews. Further limitations are listed as follows:

1. The proportion of respondents between internal (SIRC members) and external stakeholders who completed the questionnaire should be taken with caution. Of the entire respondents, a total of 34% and 66% were internal and external stakeholders respectively. Almost half the SIRC's members were management teams which might bias the results; others were top officials and support staff. The rationale was that there was a limited number of top officials whereas support staff had less interest and knowledge in answering the questionnaire by comparison, perhaps due to a difference in education level. Almost half of the external stakeholders were members of public who consisted of donors, recipients and the local community. Others are members of oversight bodies and creditors, which limits the extent to which the perceptions of the stakeholders can be generalised. However, as this study relies on the notion of public accountability, the majority of public respondents are pertinent.
2. Number of SIRC: It was not possible to include the whole population of fourteen SIRC in Malaysia. One SIRC with a different organisational structure was placed as a unit of the state government. Therefore, this affected their annual report and financial statements, which were combined with those of its state government. Another SIRC did not agree to participate which resulted in two excluded SIRC, reducing the generalisation of the present research findings, albeit not significantly.

3. Number of available annual reports: because the annual report of an SIRC is a voluntary disclosure, the limited number of annual reports might further reduce the ability to generalise the findings. However, this study included the mandatory financial statement evaluation to provide the actual practice of reporting among SIRC from 2008 to 2013. The six-year survey of annual reports is believed to be an ideal topical period of study since prior to that, the availability of annual reports was very low.
4. Measuring quality of disclosure is open to debate. Although it is hard to measure quality of reporting, which is one of the reasons for the low quality of reporting in many disclosure studies, this study attempts to fill the gap by adapting Beest *et al.* (2009). In order to ensure the consistency of scoring, a pilot study was conducted between the researcher and an independent assessor (see Appendix 5G).
5. Corporate governance mechanism was not examined in the regression analysis. This was due to the difficulty of obtaining information to measure corporate governance mechanisms, such as information on the board of directors' composition and audit characteristics. Alternatively, determinants of SIRC disclosure using regression could be answered with financial specific characteristics, available in the financial statement. Although the data of organisational characteristics was usually available in the annual report, the present inconsistency and lack of standardisation of content in the SIRC's ones might be an obstacle to accessing the required information. Moreover, five SIRC did

not ever prepare an annual report, so this study only examined their financial statements. Although the current year's information was usually available on the SIRC websites, previous years were often missing. One of the weaknesses of website reporting is that it usually shows current information only. Therefore a trend of reporting cannot be described.

6. The fifty-seven disclosure index items used in this study were subject to validity and reliability issues, although both were addressed in identifying the index items and scoring methods. Various references in choosing the index items from previous studies from international and national Accounting standards were used. In terms of scoring, a pilot study was conducted together with another assessor to address the validity and reliability in the scoring process. The report was read at least twice to ensure scoring consistency.
7. Interviews in this study were conducted with ten SIRC accountants about current practices and their expectations, in particular about disclosure and non-disclosure. Six of them prepared annual reports, of which two had started preparing annual reports in 2010 and 2011 respectively and four interviewees were non-preparers. Although there appears to be a balanced number between preparers and non-preparers, the results did not provide more comprehensive findings between the new preparers, old preparers and non-preparers. Furthermore, SIRC top management was not involved. Therefore, the interview findings do not represent the whole population of SIRC. The

bias of interviews might influence the interpretation of findings from the interviews when translating from Malay into English.

To summarise, based on the above limitations, generalisation of any findings of this study should be taken with caution.

## **10.6 Future research**

1. In order to produce a robust conclusion to fathom SIRC accountability and information expectations of stakeholders, a larger sample size is essential with similar respondents in each category. It is worth considering a different study focus on institutional donors such as companies, Islamic banks and insurance companies, because they may be sought after donors for significant *zakat* payments to SIRC. External reporting is essential for them before making contribution decisions. Therefore, a questionnaire survey can be distributed to the existing and potential institutional donors. They may have different expectations on the accountability within SIRC - 'to whom' and 'for what' and items of disclosure.
2. The questionnaire was distributed in 2014 to identify the information expectation of stakeholders, whereas content analysis of the annual report and financial statements were from 2008 to 2013. The recent Malaysian election in 2013 might have influenced the expectation of stakeholders with regard to SIRC for political reasons<sup>102</sup>. The existing disclosure index could be applied to the recent annual report to check

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<sup>102</sup> Only four SIRC are chaired by Rulers, others are chaired by either Chief Minister or civil officers (politicians).

the reporting trend before and after the election period. As a result, comparison between the actual extent and quality of reporting against the information expectations of stakeholders can be produced, gaps can be identified and bridged to satisfy various stakeholders. Also, the use of recent annual report findings can be compared to the present and future studies to examine any changes in reporting trends.

3. As this study is about discharging accountability of SIRC, content analysis should consider external reporting beyond the annual report such as brochures and newsletters about SIRC, since SIRC have frequent newsletters for every quarter year to discharge their accountability. It is worth considering to what extent that information could be used to discharge the accountability of SIRC.
4. The majority of SIRC have started actively working on their annual reports; therefore, researchers should be able to obtain information on corporate governance mechanisms. Future studies might consider examining corporate governance mechanisms that possibly influence SIRC's disclosure. Another aspect of disclosure study, the quality of annual reports, is subjective to measure whereas the using the sub-details of each disclosure item is more objective and straightforward.



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## Appendix A: References for each item of disclosure

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No.	Descriptions	References																				Total
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1.0	<b>CORPORATE INFORMATION</b>																					7
1.1	Establishment and operation	✓				✓			✓		✓	✓			✓		✓	✓		✓		
1.2	Purpose and objectives	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓	✓	✓		
1.3	Structure of organisation	✓				✓		✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓		
1.4	Board of directors	✓				✓			✓							✓	✓	✓	✓	✓		
1.5	Ethical operational policies								✓	✓						✓						
1.6	Personnel					✓		✓	✓			✓	✓			✓						
1.7	Personnel development					✓			✓	✓									✓			
		4	0	0	1	6	1	3	7	4	2	4	3	0	2	5	4	4	4	4	0	
2.0	<b>STRATEGIC INFORMATION</b>																					5
2.1	Chairman report	✓				✓		✓				✓	✓			✓	✓	✓				
2.2	Performance and achievement	✓				✓	✓				✓	✓		✓			✓	✓	✓			
2.3	Summary facts and figures	✓				✓		✓	✓	✓	✓	✓	✓			✓		✓	✓	✓		
2.4	Government borrowing/grants/guarantee	✓										✓					✓	✓		✓		
2.5	Forward looking information	✓				✓	✓		✓		✓	✓			✓			✓		✓	✓	
		5	0	0	0	4	2	3	2	1	2	5	2	1	1	3	3	5	1	3	1	
3.0	<b>FINANCIAL PERFORMANCE</b>																					9
3.1	Financial review	✓											✓					✓				
3.2	Investment	✓						✓										✓				
3.3	Actual to budget comparison	✓							✓								✓	✓				
3.4	Financial performance ratios	✓																✓				
3.5	Administration to total expenses	✓									✓							✓				
3.6	Program expenses/total expenses																			✓	✓	
3.7	Net rental income and expenses/rental income																		✓			
3.8	Investment income/average investment																		✓			
3.9	Expenditure by activities/income by activities																		✓			
		5	0	0	0	0	0	0	2	0	1	0	1	0	0	0	1	5	4	1	0	

<sup>103</sup> 1. TC - Treasury Circular 4/2007; 2. FRS - Financial Reporting Standards; 3. PPK - Government Accounting Standards (GAS or *Piawaian Perakaunan Kerajaan* or PPK); 4. PAD - Public Administration Development Circular (PADC 2/2005) - Performance indicator and measurement; 5. SORP - UK Statement of Recommended Practice for charity bodies (SORP).

<sup>104</sup> 6. Connolly and Hyndman (2004); 7. Coy and Dixon (2004); 8. Yasmin *et al.* (2013); 9. Dhanani and Connolly (2012); 10. Hyndman (1990); 11. Hook *et al.* (2012); 12. Ryan *et al.* (2002); 13. Lee (2008); 14. Crawford (2009); 15. Herawaty and Hoque (2007); 16. Jetty and Beattie (2009); 17. Ismail and Bakar (2011); 18. Sulaiman *et al.* (2005); 19. Zainon *et al.* (2012); 20. Siraj (2012).



5.1	Income Statement/ Statement of Revenue and Expenditure	✓		✓		✓		✓			✓		✓		✓		✓	✓	✓	✓	13
5.1	Revenue by source of funds				✓																
5.1	Revenue by services rendered																				
5.1	Other incoming revenue				✓													✓			
5.2	Total revenue		✓		✓			✓		✓		✓			✓			✓			
5.2	Expenditure by services				✓													✓	✓		
5.2	Expenditure by functions																	✓	✓		
5.2	Administration and governance costs				✓														✓		
5.2	Total expenditure																		-		
5.20	Other recognised gains/losses				✓					✓									✓		
5.2	Surplus/deficit		✓		✓			✓		✓		✓							✓		
5.2	Total fund brought forward (bf)				✓																
5.2	Total fund carried forward (c/f)				✓																
		1	2	1	0	10	0	1	0	2	1	3	1	2	1	0	1	1	3	6	1
5.2	Statement of Assets and Liabilities			✓				✓	✓							✓				✓	1
5.3	Statement of cash flows	✓	✓		✓		✓			✓	✓	✓					✓	✓	✓	✓	1
5.3	Notes to the accounts	✓	✓	✓	✓		✓				✓					✓	✓	✓	✓	✓	1
5.3	Audit Certificate	✓	✓																✓		1
5.3	Auditor index rating	✓	✓				✓				✓				✓						1
		2	2	1	0	2	0	2	0	0	1	2	1	0	0	0	1	2	2	2	2
	Total																				57

## Appendix B: Questionnaire survey sheet

### A Questionnaire Survey on the Perspectives of Accountability and Annual Report Disclosure of State Islamic Religious Councils (SIRC) in Malaysia/*Kajian Soal Selidik Tentang Perspektif Akauntabiliti dan Pendedahan Laporan Tahunan Majlis Agama Islam Negeri (MAIN) di Malaysia*

This research project conducted by a researcher at/*Projek kajian ini dijalankan oleh penyelidik di*  
School of Accounting and Law  
University of Gloucestershire

Rosnia Masruki

Mobile:

Supervisors/*Penyelia:*  
Professor Dr Khaled Hussainey

Dr Doaa Aly

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United Kingdom

A Questionnaire Survey on the Perspectives of  
Accountability and Annual Report Disclosure of State  
Islamic Religious Councils (SIRC) in Malaysia/*Kajian  
Soal Selidik Tentang Perspektif Akauntabiliti dan  
Pendedahan Laporan Tahunan Majlis Agama Islam  
Negeri (MAIN) di Malaysia*

My name is Rosnia Masruki, a lecturer in the Faculty of Economics and Muamalat (Business Transactions), Universiti Sains Islam Malaysia. Presently, I am pursuing my Ph.D in Accounting, University of Gloucestershire, United Kingdom. The focus of my research project is the annual report disclosure of SIRC to discharge accountability. As part of my research project, this questionnaire aims to identify disclosure information expected by stakeholders that should be disclosed in the SIRC's annual report. I believe this project may contribute to the guidelines when preparing the report. I would appreciate your assistance to complete this questionnaire. It is designed to be answered in not more than thirty minutes. You can be assured that your answers and the details you provide will be treated as strictly confidential. Any results disclosed will be reported in an aggregate form and your identity and name of your organisation will not be mentioned without your consent. If you have any further questions with regards to this survey, please do not hesitate to contact me. I look forward to receiving the completed questionnaire.

*Saya Rosnia Masruki, pensyarah di Fakulti Ekonomi dan Muamalat, Universiti Sains Islam Malaysia. Saya sedang melanjutkan pengajian PhD (Perakaunan), University of Gloucestershire, United Kingdom. Fokus projek kajian saya adalah tentang pendedahan laporan tahunan MAIN bagi tujuan akauntabiliti discaj. Sebagai salah satu bahagian dalam kajian saya, soal selidik ini bertujuan untuk mengenalpasti maklumat yang sewajarnya didedahkan dalam laporan tahunan MAIN sepertimana yang diharapkan oleh pihak-pihak berkepentingan. Saya percaya projek ini dapat menyumbang kepada panduan penyediaan laporan tahunan. Justeru, kerjasama yang diberikan untuk menjawab soal selidik ini adalah dihargai. Rekabentuk soalan disediakan supaya ia boleh dijawab tidak lebih dari tiga puluh minit. Jawapan dan perincian yang diberikan akan dianggap sebagai sulit. Sebarang hasil kajian akan dilaporkan dalam bentuk agregat dan identiti serta nama organisasi anda tidak akan disebut tanpa persetujuan anda. Jika terdapat sebarang pertanyaan berkaitan dengan kajian ini, sila hubungi saya. Mohon jasa baik untuk melengkapkan soal selidik ini.*

Thank you very much for your time and cooperation/*Sekian, terima kasih di atas masa dan kerjasama yang diberikan.*

Yours faithfully/*Salam hormat,*  
Rosnia Masruki



\* Required

## Section/*Bahagian A*

### Demographic Profile/*Profail Demografi*

Please click the appropriate answer/*Sila klik jawapan yang sesuai.*

**1. Sex/*Jantina* \***

- ☐ Female/*Perempuan*  
☐ Male/*Lelaki*

**2. Age/*Umur* \***

- ☐ below/*bawah* 29 years/*tahun*  
☐ 30-39 years/*tahun*  
☐ 40-49 years/*tahun*  
☐ 50 and/*dan* above/*ke atas*

**3. Highest educational qualification/*Kelayakan pendidikan tertinggi* \***

- ☐ SPM/STPM/Matriculation  
☐ Diploma  
☐ Degree/Advance Diploma  
☐ Master's Degree  
☐ PhD

**4. Do you have a professional qualification such as/*Adakah anda mempunyai kelulusan professional seperti MIA (Accounting), IEM (Engineering)?* \***

- ☐ No/*Tidak*  
☐ Yes/*Ya*, if yes, please specify/*Jika ya, sila nyatakan:*

**5. Area of specialisation/*Kepakaran bidang* \***

- ☐ Accounting and Business/*Perakaunan dan Perniagaan*
- ☐ Computer/*Komputer*
- ☐ Art and Literature/*Seni dan Sastera*
- ☐ Law/*Undang-undang*
- ☐ Language/*Bahasa*
- ☐ Natural and Applied Sciences/*Sains Tulen dan Gunaan*
- ☐ Religious Studies/*Pengajian Agama*
- ☐ Engineering/*Kejuruteraan*
- ☐ Other: |

**6. Home address/*Alamat kediaman:* \***

- ☐ Kuala Lumpur
- ☐ Selangor
- ☐ Negeri Sembilan
- ☐ Perak
- ☐ Kedah
- ☐ Pulau Pinang
- ☐ Perlis
- ☐ Pahang
- ☐ Terengganu
- ☐ Kelantan
- ☐ Johor
- ☐ Melaka
- ☐ Sabah
- ☐ Sarawak

**7. Category of job/*Kategori pekerjaan:* \***

- ☐ Support staff/*Staf sokongan*
- ☐ Executive or officer/*Eksekutif dan pegawai*
- ☐ Top official management/*Pengurusan tertinggi*
- ☐ Student/*Pelajar*
- ☐ Other: |

**8. Years of service/*Tempoh perkhidmatan* \***

- ☐ Less than/*kurang dari 5 years/tahun*
- ☐ 5-10 years/*tahun*
- ☐ 11-15 years/*tahun*
- ☐ 16-20 years/*tahun*
- ☐ 21-25 years/*tahun*
- ☐ 26 years and above/*tahun dan ke atas*

**9. Type of sector/*Jenis sektor* \***

- ☐ Private/*Swasta*
- ☐ Government/*Kerajaan*
- ☐ Self-employed/*Bekerja sendiri*
- ☐ Other: |

**10. Typical service/*Jenis perkhidmatan* \***

- ☐ Education/*Pendidikan*
- ☐ Business/*Perniagaan*
- ☐ Banking, finance and insurance/*Perbankan, kewangan dan insuran*
- ☐ Medical/*Perubatan*
- ☐ Public service/*Perkhidmatan awam*
- ☐ Other: |



## 2. Accountability in Islam/Akauntabiliti dalam Islam \*

	1	2	3	4	5
STRONGLY DISAGREE/ SANGAT TIDAK SETUJU	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1	2	3	4	5
a. Everyone is accountable to Allah for his/her action/(s) which is rooted within the core of Islamic pillars/ <i>Setiap orang mempunyai akauntabiliti kepada Allah terhadap setiap perbuatan yang dilakukan sebagaimana berdasarkan asas rukun Islam</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b. The belief in the oneness of God ( <i>tawhid</i> ) is essential to explain accountability as custodians ( <i>khalifah</i> ) of the earth/ <i>Percaya kepada Allah (tawhid) adalah penting untuk menjelaskan akauntabiliti sebagai pentadbir (khalifah) di atas muka bumi</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c. The believe in the Day of judgement is the final accountability as a basis of one's action/ <i>Percaya kepada hari akhirat adalah akauntabiliti yang mutlak yang menjadi asas kepada tindakan seseorang</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d. Islam offers a complete way of life for both profane and sacred matters explaining accountability in Islam/ <i>Islam menawarkan panduan hidup duniawi dan ketuhanan yang lengkap menerangkan akauntabiliti dalam Islam</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e. Trusteeship ( <i>amanah</i> ) concept implies that rendering an account is essential to discharge accountability/ <i>Konsep amanah menekankan pemberian akaun tentang pelaksanaan akauntabiliti</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f. Responsibility ( <i>taklif</i> ) concept denotes individual and social responsibilities are both important/ <i>Konsep kebertanggungjawaban (taklif) menunjukkan tanggungjawab individu dan sosial adalah sama-sama penting</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## 3. In what most capacity do you know about SIRC/*Apakah kapasiti utama anda mengetahui tentang MAIN?* \*

- ☐ Member of SIRC/*Warga MAIN* - Board of directors/*Ahli lembaga pengarah*
- ☐ Member of SIRC/*Warga MAIN* - Management and professional staff/*Staf pengurusan dan professional MAIN*
- ☐ Member of SIRC/*Warga MAIN* - Support staff/*Staf sokongan*
- ☐ External stakeholders - Oversight bodies such as/*Badan pemantau seperti National Audit Department or Jabatan Audit Negara (JAN), Accountant General's Department of Malaysia (ANM) or Jabatan Akauntan Negara and Department of Waqaf, Hajj and Umrah (JAWHAR)*
- ☐ External stakeholders - The public (voters, contributors, beneficiaries, local citizens)/*Orang awam (pengundi, penyumbang, penerima manfaat dan penduduk tempatan)*
- ☐ External stakeholders - Creditor, supplier, investor/*Pemintang, pembekal, pelabur*

rs/MAIN  
mengikut

**5. SIRC is accountable for/MAIN memikul akauntabiliti untuk tujuan: \***

\* Required

Section/Bahagian C

The items that should be disclosed in the SIRC annual reports/Item yang sewajarnya didedahkan dalam laporan tahunan MAIN

1. Please click your choice based on the following **IMPORTANCE** scales/Sila klik pilihan anda berdasarkan skala **KEPENTINGAN** di bawah:

	1	2	3	4	5
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
NOT IMPORTANT/ TIDAK PENTING					EXTREMELY IMPORTANT/ PALING PENTING

1.0 CORPORATE INFORMATION/MAKLUMAT KORPORAT \*

	1	2	3	4	5
1.1 Statement of objectives/Pernyataan objektif	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.2 Background information/Maklumat latarbelakang	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.3 Structure of organisation/Struktur organisasi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.4 Board of directors/Lembaga Pengarah	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.5 Ethical operational policies/Polisi etika operasi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.6 Personnel/Staf	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.7 Personnel development/Pembangunan staf	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other, please specify the item and level of importance/Lain-lain, sila nyatakan item tersebut dan tahap kepentingan berkaitan

(where 1 is NOT IMPORTANT and 5 is EXTREMELY IMPORTANT/di mana 1 TIDAK PENTING dan 5 PALING PENTING)

2.0 STRATEGIC INFORMATION/MAKLUMAT STRATEGI \*

	1	2	3	4	5
2.1 Chairman statement/Pernyataan pengerusi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.2 Performance and achievement/Prestasi dan pencapaian	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.3 Summary facts and figures/Ringkasan fakta dan statistik	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.4 Government financial assistance/Bantuan kewangan kerajaan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.5 Forward-looking plan/Perancangan masa hadapan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other, please specify the item and level of importance/Lain-lain, sila nyatakan item tersebut dan tahap kepentingan berkaitan

(where 1 is NOT IMPORTANT and 5 is EXTREMELY IMPORTANT/di mana 1 TIDAK PENTING dan 5 PALING PENTING)

3.0 FINANCIAL PERFORMANCE/PRESTASI KEWANGAN \*

	1	2	3	4
3.1 Financial review/Semakan kewangan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.2 Investment/Pelaburan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.3 Actual to budget comparison/Perbandingan belanjawan sebenar dan bajet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.4 Financial performance ratios/Nisbah prestasi kewangan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.5 Administration expenses to total expenses ratio/Nisbah belanja pentadbiran kepada jumlah perbelanjaan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.6 Program expenses to total expenses ratio/Nisbah belanja program kepada jumlah perbelanjaan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.7 Net rental income and rental expenses to rental income ratio/Nisbah sewa bersih diterima dan belanja sewa kepada sewa diterima	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.8 Investment income to average investment ratio/Nisbah pelaburan diterima kepada purata pelaburan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.9 Expenditure by activities to income by activities ratio/Nisbah perbelanjaan mengikut aktiviti kepada hasil mengikut aktiviti	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other, please specify the item and level of importance/Lain-lain, sila  
nyatakan item tersebut dan tahap kepentingan berkuitan

(where 1 is NOT IMPORTANT and 5 is EXTREMELY IMPORTANT/di mana 1  
TIDAK PENTING dan 5 PALING PENTING)



**4.0 NON-FINANCIAL PERFORMANCE/PRESTASI BUKAN KEWANGAN \***

	1	2	3	4	5
4.1 Performance target and objectives/ <i>Sasaran prestasi dan objektif</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.2 Input (resources used to produce output)/ <i>(sumber yang digunakan untuk menghasilkan output)</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.3 Output (activities undertaken to achieve outcome)/ <i>(aktiviti yang dijalankan untuk mencapai hasil)</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.4 Outcome (impact of the activities)/ <i>Hasil (kesan aktiviti)</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.5 Efficiency (ratio of input to output)/ <i>Kecekapan (Nisbah input kepada output)</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.6 Effectiveness (relationship between output and objectives)/ <i>Keberkesanan (hubungan di antara output dan objektif)</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.7 Productivity (rate of return)/ <i>Produktiviti (kadar pulangan)</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.8 Customer satisfaction measurement/ <i>Pengukuran kepuasan pelanggan</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Other, please specify the item and level of importance/Lain-lain, sila nyatakan item tersebut dan tahap kepentingan berkaitan**

(where 1 is **NOT IMPORTANT** and 5 is **EXTREMELY IMPORTANT**/di mana 1 **TIDAK PENTING** dan 5 **PALING PENTING**)

--

## 5.0 FINANCIAL STATEMENTS/PENYATA KEWANGAN \*

	1	2	3	4	5
5.1 Balance Sheet @ Statement of financial position/Lembaran imbalan @ Penyata kedudukan kewangan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.2 Non current assets at cost/Aset bukan semasa pada kos	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.3 Long term investments/Pelaburan jangka panjang	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.4 Long term debtors/Penghutang jangka panjang	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.5 Current assets/Aset semasa	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.6 Current liabilities/Liabiliti semasa	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.7 Long term liabilities/Liabiliti jangka panjang	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.8 Deferred liabilities/Liabiliti tertunggak	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.9 Deferred credits from government grants/Kredit tertunggak dari geran kerajaan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.10 Reserves/Rezab	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.11 Income Statement @ Statement of Revenue & Expenditure/Penyata pendapatan @ Penyata hasil dan perbelanjaan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.12 Revenue by source of funds/Hasil mengikut sumber kewangan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.13 Revenue by services/Hasil mengikut perkhidmatan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.14 Other revenue/Lain lain hasil	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.15 Total revenue/Jumlah hasil	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.16 Expenditure by services/Perbelanjaan mengikut perkhidmatan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.17 Expenditure by functions/Perbelanjaan mengikut fungsi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.18 Administration and governance costs/Kos pentadbiran dan urus tadbir	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.19 Total expenditure/Jumlah perbelanjaan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.20 Other recognised gains or losses/Lain lain untung atau rugi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.21 Surplus or deficit / Lebihan or defisit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.22 Total fund brought forward (b/f)/Jumlah dana bawa ke hadapan (b/h)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.23 Total fund carried forward (c/f)/Jumlah dana hantar ke hadapan (h/h)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.24 Statement of assets and liabilities/Penyata aset dan liabiliti	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.25 Statement of cash flows/Penyata aliran tunai	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.26 Notes to the accounts/Nota kepada perakaunan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.27 Auditor's Report/Laporan audit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.28 Auditor accountability index score/Skor audit akauntabiliti indeks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other, please specify the item and level of importance/Lain-lain, sila nyatakan item tersebut dan tahap kepentingan berkaitan

(where 1 is **NOT IMPORTANT** and 5 is **EXTREMELY IMPORTANT**/di mana 1 **TIDAK PENTING** dan 5 **PALING PENTING**)

**2. Does Islamic thought influence the expected information disclosed in the annual report of SIRC/*Adakah ajaran Islam mempengaruhi maklumat yang sepatutnya didedahkan dalam laporan tahunan MAIN? \****

☐ No/*Tidak*

☐ Yes/*Ya*

**If yes, how/*Jika ya, bagaimana?***

**3. Is there any difference of disclosure information in the annual report of the SIRC as religious organisations in public setting from other governmental entities/*Adakah perbezaan maklumat dalam laporan tahunan MAIN sebagai organisasi agama dalam sektor awam berbeza dari entiti awam yang lain?\****

☐ No/*Tidak*

☐ Yes/*Ya*

**If yes, in what aspect/*Jika ya, dalam aspek apa?***

**THANK YOU FOR YOUR COOPERATION/  
*TERIMA KASIH DI ATAS KERJASAMA ANDA***

## Appendix C: Measurement scales used to operationalise the qualitative characteristics for non-financial disclosure

(Adapted from Beest *et al.*(2009)

No.	Operationalisations	Scale of measurements
<b>Relevance (2)</b>		
R1	To what extent does the presence of the forward-looking statement help to form expectations and predictions concerning the future of the SIRC?	1 = No forward-looking information 2 = Forward-looking information not in an apart subsection 3 = Separate subsection 4 = Extensive predictions 5 = Extensive predictions useful for forming expectations
R2	To what extent does the presence of non-financial information, in terms of potential fund opportunities and challenges complement financial information?	1 = No non-financial information 2 = Little non-financial information, no useful for forming expectations 3 = Useful non-financial information 4 = Useful non-financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps to develop expectations
<b>Faithful representation (3)</b>		
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1 = Only described estimations 2 = General explanation 3 = Special explanation of estimations 4 = Special explanation, formulas explained etc. 5 = Comprehensive arguments
F2	To what extent does the SIRC, in the discussion of the annual results, highlight the positive events as well as the negative?	1 = Negative events only mentioned in footnotes 2 = Emphasize on positive events 3 = Emphasize on positive events, but negative events are mentioned, no negative events occurred 4 = Balance positive/negative events 5 = Impact of positive/negative events is also explained
F3	To what extent does the SIRC provide information on corporate governance?	1 = No description CG 2 = Information on CG limited, not in a separate subsection 3 = Separate subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG

### Understandability (3)

- |    |   |   |
|----|---|---|
| U1 | To what extent is the annual report presented in a well-organized manner?                       | 1 = Very bad presentation<br>2 = Bad presentation<br>3 = Poor presentation<br>4 = Good presentation<br>5 = Very good presentation   |
| U2 | To what extent does the presence of graphs and tables clarify the presented information?        | 1 = no graphs<br>2 = 1-5 graphs<br>3 = 6-10 graphs<br>4 = 11-15 graphs<br>5 = > 15 graphs   |
| U3 | To what extent is the use of language and technical jargon in the annual report easy to follow? | 1 = Much jargon (industry), not explained<br>2 = Much jargon, minimal explanation<br>3 = jargon is explained in text<br>4 = Not much jargon, or well explained<br>5 = No jargon, or extraordinary explanation |

### Comparability (3)

- |    |   |   |
|----|---|---|
| C1 | To what extent do SIRC provide a comparison of the <i>zakat</i> collection and distribution in the current period compared to previous periods? | 1 = No comparison<br>2 = Only with previous year<br>3 = With 5 years<br>4 = 5 years + description of implications<br>5 = 10 years + description of implications |
| C2 | To what extent is the information in the annual report comparable to the information provided by other SIRC?                                    | 1 = No comparability<br>2 = Limited comparability<br>3 = Moderate comparability<br>4 = Very much comparability<br>5 = Very extensive comparability              |
| C3 | To what extent does the SIRC present financial index numbers and ratios in the annual report?   | 1 = No ratios<br>2 = 1-2 ratios<br>3 = 3-5 ratios<br>4 = 6-10 ratios<br>5 = > 10 ratios   |
-

## Appendix D: Measurement scales used to operationalise the qualitative characteristics for financial statements

(Adapted from Beest *et al.*, 2009)

No.	Operationalisations	Scale of measurements
<b>Relevance (1)</b>		
R1	To what extent does the presence of financial breakdown figures on <i>zakat/waqaf</i> help to form potential funds opportunities and challenges of the SIRC?	1 = No financial breakdown figures 2 = Financial breakdown figures not in a separate subsection 3 = Separate subsection 4 = Extensive predictions 5 = Extensive predictions useful for making expectation
<b>Faithful representation (3)</b>		
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the financial statements?	1 = Only described estimations 2 = General explanation 3 = Special explanation of estimations 4 = Special explanation, formulas explained etc. 5 = Comprehensive argumentation
F2	To what extent does the SIRC base its choice for certain accounting principles on valid arguments?	1 = Changes not explained 2 = Minimum explanation 3 = Explanation with reasons 4 = Explanation with reasons + consequences 5 = No changes or comprehensive explanation
F3	Which type of auditors' report is included in the financial statements?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + internal control
<b>Understandability (3)</b>		
U1	To what extent are the financial statements presented in a well-organized manner?	1 = Very bad presentation 2 = Bad presentation 3 = Poor presentation 4 = Good presentation 5 = Very good presentation
U2	To what extent are the notes in the balance sheet and the income statement sufficiently clear?	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which assumptions etc.) 5 = Everything that might be difficult to understand is explained

U3	To what extent is the use of language and technical jargon in the financial statements easy to follow?	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation 3 = jargon is explained in text 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation
----	--	---

#### Comparability (1)

C3	To what extent did the SIRC adjust the previous accounting period's figures, due to the implementation of a change in accounting policy or revisions in accounting estimates?	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes
----	---	--

#### Timeliness (1)

T1	How many days did it take for the auditor to sign the auditors' report after book-year end?	Natural logarithm of amount of days: 1 = 1-1.99 2 = 2-2.99 3 = 3-3.99 4 = 4-4.99 5 = 5-5.99
----	---	--

Appendix E: List of Malaysian State Islamic Religious Councils

Regional	State Islamic Religious Council (SIRC)
Central (3)	<i>Majlis Agama Islam Wilayah Persekutuan</i> (Federal Territory Islamic Council)
	<i>Majlis Agama Islam Selangor</i> (Selangor Islamic Religious Council)
	<i>Majlis Agama Islam Negeri Sembilan</i> (Negeri Sembilan Islamic Religious Council)
North (4)	<i>Majlis Ugama Islam dan Adat Istiadat Perak</i> (Perak Islamic Religious and Malay Customs Council)
	<i>Majlis Agama Islam Negeri Pulau Pinang</i> (Penang Islamic Religious Council)
	<i>Majlis Agama Islam Negeri Kedah Darul Aman</i> (Kedah Islamic Religious Council)
	<i>Majlis Agama Islam dan Adat Istiadat Melayu Perlis</i> (Perlis Malay Customs and Islamic Religious Council)
South (2)	<i>Majlis Agama Islam Melaka</i> (Malacca Islamic Religion Council)
	<i>Majlis Agama Islam Negeri Johor</i> (Johor Islamic Religious Council)
East Coast (3)	<i>Majlis Agama Islam Kelantan</i> (Kelantan Council of Religion and Malay Custom)
	<i>Majlis Agama Islam dan Adat Melayu Terengganu</i> (Terengganu Islamic Religious and Malay Customs)
	<i>Majlis Ugama Islam dan Adat Resam Melayu Pahang</i> (Pahang Islamic Religious and Malay Customs Council)
East of Malaysia (2)	<i>Majlis Ugama Islam Sabah</i> (Sabah Islamic Religious Council)
	<i>Majlis Islam Sarawak</i> (Sarawak Islamic Council)

Source: Adopted from the respective SIRC website. Accessed on 6 March 2013.



# Appendix F: Results of pilot disclosure index

## Annual report scores

SIRC	Researcher 1	Researcher 2	p-value
SIRC1 2007	68.60	71.98	0.334
SIRC1 2006	69.08	68.43	
SIRC2 2007	66.19	69.89	
SIRC2 2006	67.76	67.20	
Mean	67.91	69.38	

## Non financial disclosure scores

SIRC	Researcher 1	Researcher 2	p-value
SIRC1 2007	54.72	58.15	0.096
SIRC1 2006	55.60	53.19	
SIRC2 2007	54.74	57.30	
SIRC2 2006	54.08	55.85	
Mean	54.79	56.12	

## Financial statements scores

SIRC	Researcher 1	Researcher 2	p-value
SIRC1 2007	82.48	85.82	0.713
SIRC1 2006	82.56	83.67	
SIRC2 2007	77.65	82.48	
SIRC2 2006	81.44	78.54	
Mean	81.03	82.63	

## Appendix G: Letter for requesting annual reports

### Malay Version



UNIVERSITI SAINS ISLAM MALAYSIA

جامعة العلوم الإسلامية الماليزية  
ISLAMIC SCIENCE UNIVERSITY OF MALAYSIA

Fakulti Ekonomi dan Muamalat  
Tel : 06- 798 6305 / Faks : 06- 798 6308

USIM : 24/175/1 Jld 2 (2)  
19 Rabiulawal 1434H / 31 Januari 2013

Akauntan  
Melalui:  
Ketua Pegawai Eksekutif/Pengerusi  
Majlis Agama Islam Wilayah Persekutuan  
Aras 1, 7, 9-11,  
Bangunan PERKIM,  
No. 150, Jalan Ipoh,  
51200 KUALA LUMPUR  
Tel : 03 4047 9444  
Fax : 03-4044 9444

Assalamualaikum wbt.,

Tuan/Puan,

#### PERMOHONAN MENDAPATKAN LAPORAN TAHUNAN

Dengan segala hormatnya saya merujuk kepada perkara di atas.

2. Untuk makluman, saya sedang melanjutkan pengajian di peringkat PhD dalam bidang Perakaunan di University of Stirling, Scotland, United Kingdom. Bidang penyelidikan saya ialah tentang pelaporan Majlis Agama Islam Negeri (MAIN) di Malaysia. *Insyallah*, hasil yang dijangkakan dari kajian ini semoga dapat dimanfaatkan lerutamanya tentang amalan pelaporan di Majlis Agama Islam.

3. Justeru, besarlah harapan saya untuk mendapatkan Laporan Tahunan Kewangan bagi tahun 2000 sehingga 2012 (tahun penerbitan terbaharu) sama ada dalam bentuk *hardcopy* atau *softcopy* memandangkan ia tidak diperolehi di laman web MAIN.

3. Jika laporan tahunan tersebut telah sedia untuk dipos, sila maklumkan ke alamat emel saya atau beserta maklumat saiz dan berat keseluruhan laporan tahunan berkenaan. Saya akan menghantar pos laju 'prepaid box' untuk urusan penghantaran seterusnya. Sebarang kos yang dikenakan akan dibiayai oleh pihak saya.

4. Mohon perhatian dan kerjasama pihak Tuan/Puan berhubung perkara ini. *Jazakaaallahukhoiran kathiran*. Semoga Majlis Agama Islam akan lebih cemerlang ke arah memperkasa sosio-ekonomi *Ummah* keseluruhannya.

Sekian, terima kasih.

Universiti Sains Islam Malaysia  
71800 Nusajaya, Negeri Sembilan Darul Iktisad, Malaysia  
Tel: (+606) 798 8000 Faks: (+606) 798 8504  
www.usim.edu.my



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## ENGLISH VERSION

### Accountant

Through:  
Chief Executive Officer  
**State Islamic Religious Council**

### Ref: Application for annual reports

The above mentioned matter is referred.

For your information, I am currently pursuing my Doctoral Degree (Ph.D) in Accounting at the University of Gloucestershire, United Kingdom. My area of research concerns the State Islamic Religious Council (MAIN) reports. The expected findings from this research can be utilised especially in terms of the reports practice conducted at the SIRC.

Consequently, I would be much obliged if I could acquire the annual reports starting from the year 2000 to 2013, either in the form of hardcopy or softcopy as they cannot be found on SIRC's website.

As soon as the above-mentioned annual reports are set to be despatched, kindly send a notification to my email along with details of the overall size and weights of the reports. I will later send a 'prepaid box' via post express for the process of delivery. Any cost incurred during this process will be fully paid by me.

Your attention and cooperation as regards to this matter are greatly appreciated. Ultimately, may the SIRC continue to thrive and nurture tomorrow's leaders of society.

Thank you very much.

"KNOWLEDGEABLE, WISDOM AND BENEVOLENCE"

Best regards,

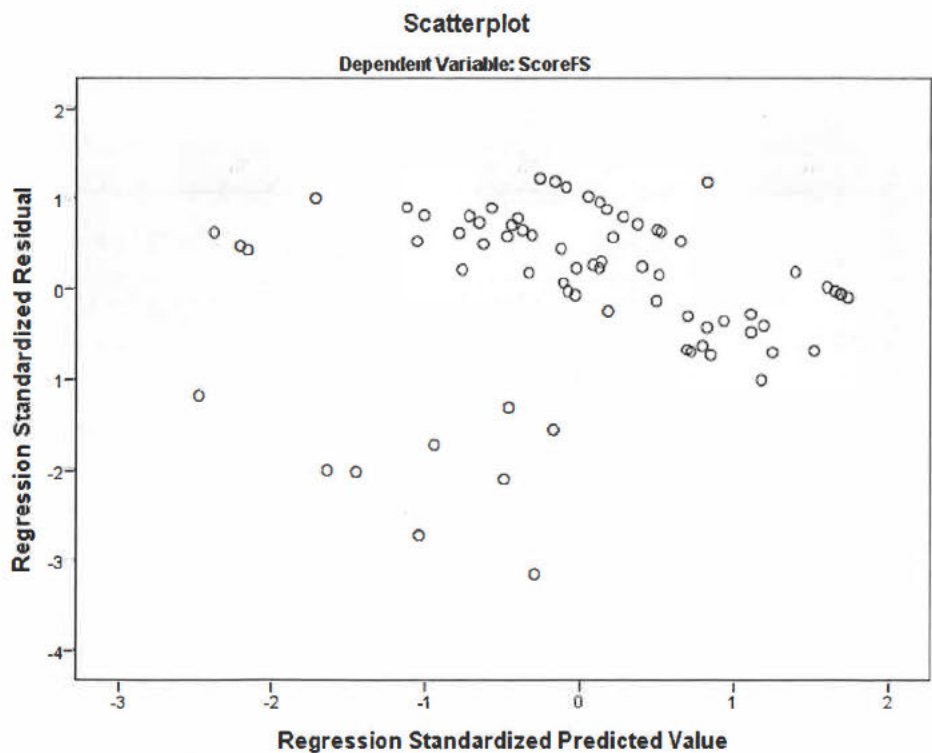
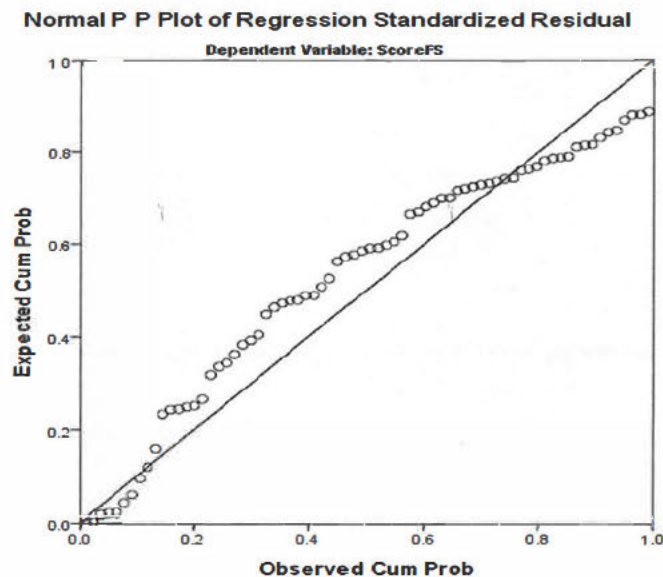
### **ROSNIA MASRUKI**

Lecturer  
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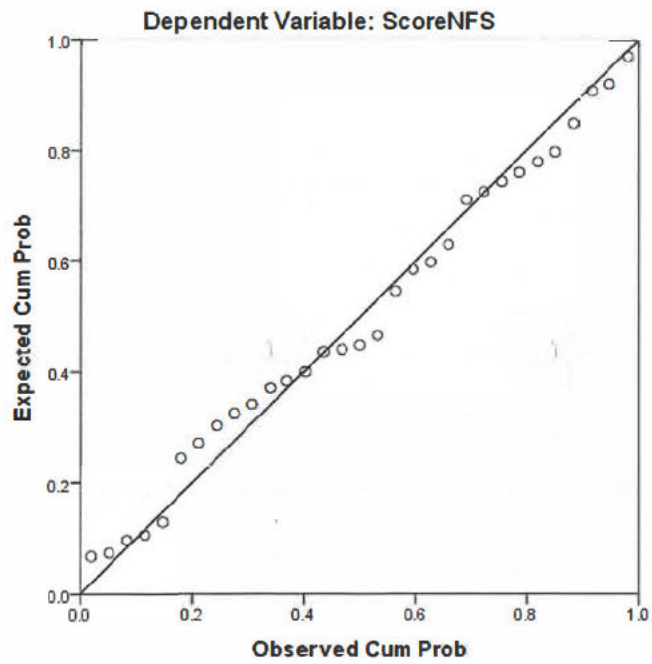
Also,  
Research Postgraduate Student  
The Business School  
University of Gloucestershire  
The Park, Cheltenham  
Gloucestershire  
GL502RH

Mobile No:

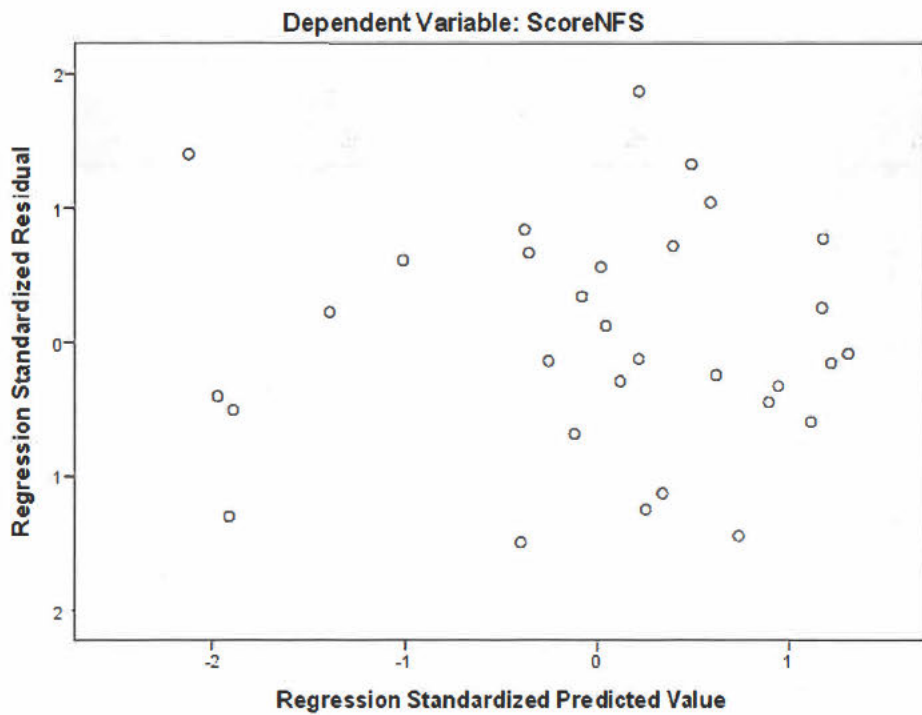
Appendix H: Normal PP plot, scatterplot and residual tables



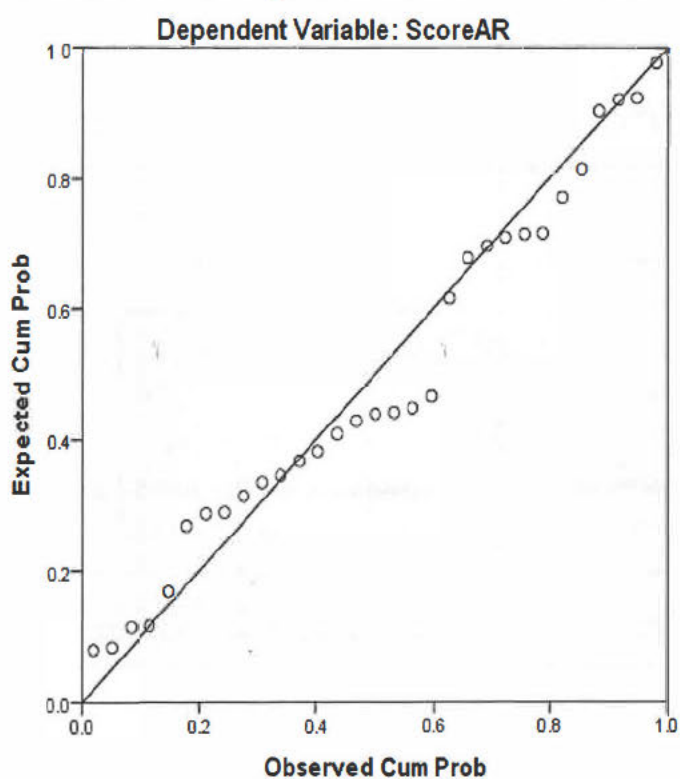
Normal P-P Plot of Regression Standardized Residual



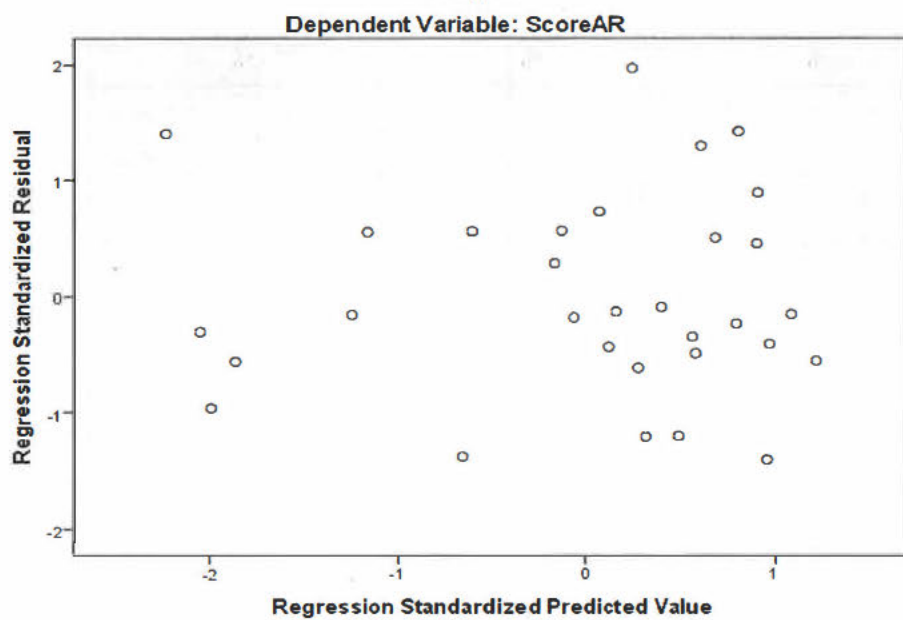
Scatterplot



Normal P-P Plot of Regression Standardized Residual



Scatterplot



Residuals statistics of financial statements disclosure<sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	72.2259	85.0361	79.7612	3.04170	72
Std. Predicted Value	2.477	1.734	.000	1.000	72
Standard Error of Predicted Value	.674	2.154	1.241	.388	72
Adjusted Predicted Value	72.1665	85.1058	79.7631	3.12288	72
Residual	11.55366	4.48071	.00000	3.46116	72
Std. Residual	-3.144	1.219	.000	.942	72
Stud. Residual	3.217	1.297	.000	.993	72
Deleted Residual	12.09671	5.20737	.00182	3.86078	72
Stud. Deleted Residual	3.492	1.304	.011	1.021	72
Mahal. Distance	1.401	23.405	7.889	5.311	72
Cook's Distance	.000	.098	.013	.022	72
Centered Leverage Value	.020	.330	.111	.075	72

a. Dependent Variable: NewScoreFS

Residual statistics of non-financial disclosure<sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	43.3041	65.7952	57.2342	6.55610	31
Std. Predicted Value	2.125	1.306	.000	1.000	31
Standard Error of Predicted Value	1.720	3.820	2.606	.548	31
Adjusted Predicted Value	40.0356	68.9994	57.3084	7.29953	31
Residual	7.37341	9.19728	.00000	4.22995	31
Std. Residual	1.493	1.862	.000	.856	31
Stud. Residual	1.824	1.986	.007	1.017	31
Deleted Residual	11.00668	10.46696	-.07417	6.08579	31
Stud. Deleted Residual	-1.934	2.142	-.008	1.050	31
Mahal. Distance	2.671	16.976	7.742	3.778	31
Cook's Distance	.000	.182	.052	.060	31
Centered Leverage Value	.089	.566	.258	.126	31

a. Dependent Variable: ScoreNFS

Residuals statistics of annual report disclosure<sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	61.1173	74.0952	69.5013	3.76044	31
Std. Predicted Value	-2.230	1.222	.000	1.000	31
Standard Error of Predicted Value	.945	2.099	1.432	.301	31
Adjusted Predicted Value	59.3107	76.3207	69.5575	4.15118	31
Residual	-3.80444	5.35809	.00000	2.32374	31
<b>Std. Residual</b>	-1.402	1.975	.000	.856	31
Stud. Residual	-1.681	2.106	-.010	1.013	31
Deleted Residual	-5.66288	6.09777	-.05620	3.31005	31
Stud. Deleted Residual	-1.759	2.303	-.004	1.048	31
Mahal. Distance	2.671	16.976	7.742	3.778	31
<b>Cook's Distance</b>	.000	.205	.050	.058	31
Centered Leverage Value	.089	.566	.258	.126	31

a. Dependent Variable: NewScoreAR



## **Appendix I: Interview guide**

### **General questions to all interviewees:**

#### **Question 1**

- a. How do you identify the content of reporting that should be disclosed?  
A federal government has issued a Treasury Circular 4/2007 which provides guidelines on the preparation and presentation of annual report for federal statutory bodies.
- b. Would you prefer to have such guidelines for SIRC? Please justify.

#### **Alternative forms:**

- How do you view factors that influence the disclosed information?
- How do you decide what information to disclose and not to disclose?

#### **Question 2**

How should/does Islamic thought influence the content of reporting in the SIRC's annual reports?

### **Additional questions to the respective interviewees:**

#### **Accountants of SIRC**

1. What are the reasons or constraints for disclosure or non disclosure of items in the SIRC's annual reports?

#### **Alternative forms:**

- Do you have any kind of policies not to disclose specific disclosure information? Please explain.
- What are the purposes of preparing the SIRC annual report?
- Do you have any difficulties in preparing the annual report? Please explain.

#### ***Non preparers of annual report***

2. What are the factors for not preparing annual reports?

### **Regulators, auditors (questions 1, 2 and 3) and the public (question 2 and 3):**

1. Why is an annual report not mandatory?
2. Do you think that an annual report is essential? Please justify.
3. Do you think that there should be a specific regulation to enforce the preparation of a comprehensive annual report instead of merely the mandatory financial statements? Please justify.

## Appendix J: Letter for interview arrangements

UNIVERSITY OF  
GLOUCESTERSHIRE

100 Cliftonham and Clarendon

Faculty Administration Office  
University of Gloucestershire  
Business School  
The Park  
Cirencester GL3 7EH

16<sup>th</sup> January 2015,

To Whom It May Concern:

Re: Rosnia Masruki

Student number:

Title of programme of research: Accountability and Accounting Disclosure of State Islamic Religious Councils (SIRC) in Malaysia

This is to certify that the above-named is enrolled to study full time BEd at this University. I am writing to confirm that the student needs to commence data collection as part of her research and is seeking to conduct three different sets of interviews these involve accountants of Malaysian State Islamic Religious Councils (SIRCs), policy makers and users. All data collected will be treated as confidential and used only for the purposes of this academic research. Your support and assistance to the student would be much appreciated.

If you require any further information, please do not hesitate to contact me.

Best regards,



Sabina Fiebig Lord  
Faculty Administration

Business School  
University of Gloucestershire  
100 Clifton  
Park Campus – Oxen Building The Park, Gloucestershire  
GL3 7EH  
UK  
Tel: 01452 861111

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