ZAKAT COMPUTATION AND DISCLOSURE BY MALAYSIAN ISLAMIC BANKS

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ABSTRACT

This paper focuses on the zakat practices of Islamic banking institutions in Malaysia. Based on the analysis of the selected Islamic banks’ annual reports, the study analyses the current method that the Islamic banks used in zakat computation. Another primary focus of the study is to measure the extent of zakat disclosure in the annual reports using Zakat Disclosure Checklist based on standards and guidelines from BNM, AAOIFI, JAWHAR and MASB. In-depth semi-structured interviews with senior officers of two leading Islamic banks on zakat computation and disclosure were conducted to evaluate the challenges faced by the Islamic banks in computing zakat and disclosing zakat information in the annual reports. The findings show that Adjusted Growth Method is most commonly used in zakat computation. It is also found that Bank N as well as Bank O disclosed the most information as stated in the Zakat Disclosure Checklist. The study also found that there are three challenges in zakat computation and disclosure which are the difficulty in recognising the adjustments and disclosing them in the annual reports, lack of standards of zakat disclosure and lack of exposure to the zakat authorities that were in-charge of receiving zakat. This paper concludes by suggesting three recommendations i.e. establishment of Zakat committee, developing the accounting software for zakat computation and organizing zakat management training programme that may be adopted by Islamic banks, regulators and any party involved in zakat computation and disclosure.

Key words: Zakat Computation, Zakat Disclosure, Malaysian Islamic Banks.

INTRODUCTION

Islamic banks pay zakat on voluntary basis. Each Islamic bank has its own zakat's computation and payment method according to the rulings made by their respective Shariah Supervisory Board (SSB) or Shariah Committee (SC) (Badarulzaman et al., 2016). This is because of no specific accounting standards for zakat to be used by the Islamic banks of Malaysia. Nonetheless, Islamic banks can refer to Bank Negara Malaysia (BNM)'s Guidelines on Financial Reporting for Islamic Banking Institutions, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)’s Financial Accounting Standard (FAS) 9, Jabatan Wakaf, Zakat dan Haji (JAWHAR)’s Zakat Management Manual and Malaysian Accounting Standards Board (MASB) Technical Release (TR) i-1 as standards and guidelines for zakat matters. It is worth mentioning that there is additional information need to be disclosed by Islamic banks that pay zakat (Bank Negara Malaysia, 2016), which are:
  i. responsibility for zakat payment either on the business, and/or behalf of the shareholders;
  ii. method applied in the determination of zakat base e.g. Growth Method, Working Capital Method; and
  iii. beneficiaries of zakat fund e.g. Baitul Mal, orphanage, etc.
The main problem lies in the absence of mandatory accounting standard of zakat by Islamic bank of Malaysia. Thus, each Islamic bank depends on their own Shariah rulings pertaining zakat computation and payment method. Therefore, each respective SC has their own juristic views that will bind the Islamic bank. Some Islamic banks compute zakat by using Working Capital Method, Growth Capital Method and Profit Capital Method (Badarulzaman et al., 2016). Thus, this will result in various zakat computations.

Due to the absence of one accounting standard for zakat, Islamic banks apply different accounting practices particularly in relation to zakat disclosure in the financial statements (Badarulzaman et al., 2016). In addition, most of the Islamic banks only disclosed the zakat paid amount with little information on method applied and the beneficiaries of zakat fund. There is little information on zakat can be found in the annual reports (Zulkepli, 2013). Although there is some information that needs to be disclosed in the reports which each Islamic bank must also disclose zakat information on the Director’s Report, which is its responsibility for zakat payment either on the business and/or behalf of the shareholders, method applied in the determination of zakat base and the beneficiaries of the fund. On the other hand, those who do not pay zakat should disclose a statement to that effect (Bank Negara Malaysia, 2016).

Thus, providing sufficient information on zakat in the annual report is important as it would assist in the shareholders in making investment decision. It is also needed to satisfy stakeholders’ needs for Shariah compliance assurance (Sugianto & Harapan, 2017). In addition, lack of disclosure will deny the true rights of the stakeholders in regards of access to accurate information (Zulkepli, 2013). Therefore, Lovett (2002) stated that as a result of the inconsistency in reporting, there are two problems that may exist: (i) comparability of financial statements (ii) reliability and creditability (Sarea, 2013). Consistency in the accounting treatment and information disclosure would allow comparability between information presented in the financial statement (Mohammad, Bujang, Abd. Hakim, 2015). It is vital to have a proper accounting treatment of a corporation’s zakat as it will ensure favourable zakat behaviour among the zakat payers and they can fulfil their zakat obligations so that the zakat receivers acquire their rights (Adnan & Abu Bakar, 2009).

Looking into these three existing zakat standards and guidelines which are AAOIFI’s FAS 9, Zakat Management Manual prepared by JAWHAR and MASB TR i-1, there are four recommended method of assessment. AAOIFI’s FAS 9 mentions about Net Assets Method and Net Invested Funds Method. (AAOIFI, 2015) MASB TR i-1 and JAWHAR’s Zakat Management Manual mentioned about Adjusted Growth Method and Adjusted Working Capital Method after mentioning about Net Assets Method and Net Invested Funds Method. It claims that the two former methods are more suitable for Malaysian banking model (Malaysian Accounting Standards Board, 2006; Jabatan Wakaf, Zakat dan Haji, 2010). However, in BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, there is nothing mentioned about the method of assessment. These initiatives towards the promulgation of zakat-related standards are beneficial as it is useful on business zakat assessment (Adnan & Abu Bakar, 2009).

This research seeks to fulfil the following objectives:
1) To examine the zakat computation method used in Islamic banks of Malaysia.
2) To analyse zakat disclosure practices in the annual reports on Islamic banks of Malaysia.
3) To evaluate the challenges in zakat computation and disclosure in Islamic banks in Malaysia.
RESEARCH METHODOLOGY

In this study, the research begins with document analysis of annual reports on individual Malaysian Islamic banks of year 2017 to discover which zakat computation method was used in computing zakat. Then, a Zakat Disclosure Checklist will be established to explore to what extent the banks disclose their zakat information on the annual reports. Items in the checklist were extracted from four standards and guidelines which are BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 9, JAWHAR’s Zakat Management Manual and MASB TR i-1. In order to evaluate the challenges in zakat computation and disclosure, interviews with the selected Islamic bank were conducted.

Annual reports from 2017, which were the latest annual reports available, were retrieved from the banks’ website to analyse whether the banks pay zakat or not. Of the sixteen banks that were listed as Islamic banks under BNM, only Bank I does not provide the audited financial statement on their website as their financial statement for the financial year ended on 30 June 2018, leaving the sample of fifteen.

All financial statements in the annual reports of the banks that were analysed are which for the financial year ended 31 December 2017 except for Bank C, Bank D and Bank F that ended on 30 March 2018.

In addition, this study also includes how zakat information is disclosed. Hence, Zakat Disclosure Checklist was established. The items in the Zakat Disclosure Checklist are taken from these four standards and guidelines which are BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 9, JAWHAR’s Zakat Management Manual and MASB TR i-1. There are seven items in the checklist that need to be disclosed if they are liable to pay zakat which are:

<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>Standards/Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank liable for zakat on business</td>
<td>BNM’s Guidelines √ AAOIFI’s FAS 9 √ JAWHAR’s Manual √ MASB TR i-3 √</td>
</tr>
<tr>
<td>2</td>
<td>Bank liable for zakat on behalf of shareholders</td>
<td>√</td>
</tr>
<tr>
<td>3</td>
<td>Beneficiaries of zakat</td>
<td>√</td>
</tr>
<tr>
<td>4</td>
<td>Method applied in the determination of zakat base</td>
<td>√</td>
</tr>
<tr>
<td>5</td>
<td>Amount paid for zakat</td>
<td>√</td>
</tr>
<tr>
<td>6</td>
<td>SSB or SC attestation that zakat has been computed according to Shariah</td>
<td>√</td>
</tr>
<tr>
<td>7</td>
<td>Rate used to compute zakat</td>
<td>√</td>
</tr>
</tbody>
</table>

The first item which is the statement of whether the bank is liable for zakat on business is taken from BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 9, and MASB TR i-1. The second, third and sixth items are taken from BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions and AAOIFI’s FAS 9. The
fourth item which is the method used in zakat computation was extracted from those four guidelines. Thus, it is so important that it becomes the first research objective for this study. The fifth and the last items were taken from BNM’s Guidelines on Financial Reporting for Islamic Banking Institutions, AAOIFI’s FAS 9, JAWHAR’s Zakat Management Manual and MASB TR i-1. Each Islamic bank scores 1 if they disclosed the information and 0 if none.

Secondly, a semi-structured interview method is conducted. Two banks which are Bank L and Bank E were selected to be the respondents. Eight interview questions which are related to the research are made and given to the interviewees before proceeding with the interview session. The officer in charge of zakat computation and disclosure from each of the selected Islamic banks will be the respondents of this study.

FINDINGS

1) Method used in zakat computation by Islamic banks in Malaysia

Table 2: Method Used in Zakat Computation by Islamic banks in Malaysia

<table>
<thead>
<tr>
<th>No.</th>
<th>Banks</th>
<th>Method used in zakat computation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bank A</td>
<td>Asset Growth</td>
</tr>
<tr>
<td>2.</td>
<td>Bank C</td>
<td>Growth Method</td>
</tr>
<tr>
<td>3.</td>
<td>Bank E</td>
<td>Capital Growth</td>
</tr>
<tr>
<td>4.</td>
<td>Bank F</td>
<td>Growth Model</td>
</tr>
<tr>
<td>5.</td>
<td>Bank G</td>
<td>Adjusted Growth</td>
</tr>
<tr>
<td>6.</td>
<td>Bank J</td>
<td>Opening Reserve Method</td>
</tr>
<tr>
<td>7.</td>
<td>Bank L</td>
<td>Adjusted Growth</td>
</tr>
<tr>
<td>8.</td>
<td>Bank M</td>
<td>Growth Capital</td>
</tr>
<tr>
<td>9.</td>
<td>Bank N</td>
<td>Profit and Loss Method</td>
</tr>
</tbody>
</table>

From the table above, out of 15 Islamic banks, only 10 banks disclosed about their zakat computation method in their annual reports. There are seven Islamic banks that choose Adjusted Growth Method as their zakat computation method. The other three banks which are Bank J, Bank N and Bank O choose Opening Reserve, Profit and Loss and Working Capital Method respectively.

There are only two methods that are preferred by JAWHAR and MASB which are Growth and Working Capital methods, and this is what the eight banks have been using. However, none of the standards and guidelines recommend the used of these two methods which are Opening Reserve and Profit and Loss methods. The SSB and SC of the respective banks should provide an explanation and justification why the basis is not as what has been proposed by the existing standards and guidelines.
2) Zakat disclosure practices in the annual reports on Islamic banks of Malaysia.

From the analysis of the fifteen Islamic banks, Bank N and Bank O recorded the highest score which means they disclosed all the items that are stated in the Zakat Disclosure Checklist. Bank H, Bank K and Bank P scored 1.

2.1 Bank Liable for Zakat on Business or Not

In the annual reports, a statement as mentioned above or a similar statement such as in the annual report of Bank B, it is stated “Zakat represent business zakat payable by the Bank …”. For this item, twelve out of fifteen banks stated in the annual reports that they do pay their zakat on business. The remaining banks do not disclose any statement regarding zakat on business.

2.2 Bank Liable for Zakat on Behalf of Shareholders or Not

A statement as mentioned above, or a similar statement such as in the annual report of Bank E, it is stated “The Bank paid the zakat on the Bank’s portion i.e. shareholders’ fund …” or in the annual report of Bank G, it is stated “… it is the shareholder’s responsibility to ensure that their own zakat obligations are fulfilled …” will be recognised. It can be that the bank may or may not pay zakat on behalf of the shareholders. In both cases, they will be given a score of 1. For this item, eleven out of fifteen banks were given a score of 1. Of the eleven banks, only Bank E does pay zakat on behalf of their shareholders and vice versa.

There are three banks that stated that they do not pay zakat on behalf of their shareholders. In this case, they are the one that scored one. However, they do not state anything about paying zakat on business. This is the case of Bank H, Bank K and Bank P. The statements in their annual reports are as follows:

• In the annual report of Bank H, it is stated “The Bank is not required to pay zakat for the financial year ended 31 December 2017 because its shareholder has no obligation to pay zakat.”
• In the annual report of Bank K, it is stated “The obligation and responsibility of payment of Zakat lies with the ultimate individual shareholders and the depositors of the Bank. As such, no accrual of Zakat expenses is recognised in the financial statements of the Bank.”
• In the annual report of Bank P, it is stated “The Bank does not pay zakat on behalf of the shareholders or depositors.”

2.3 Beneficiaries of Zakat

Having a statement in the annual reports mentioning about beneficiaries of zakat in general or in specific, they will be given a score of 1. For this item, only six banks out of fifteen do mentioned about beneficiaries of their zakat fund.

It is interesting to note that Bank E has obtained mandated distribution of a portion of their zakat from zakat authorities so that they can act as an agent for distribution.

It is also interesting to note that only Bank M stated their beneficiaries of zakat in detailed in the SC’s report. In the annual report of this bank, it is stated “The beneficiaries of the zakat fund were Pusat Pungutan Zakat Universiti Putra Malaysia (UPM), International...
Islamic University Malaysia (IIUM) Endowment Fund, Tabung Amanah Zakat Universiti Kebangsaan Malaysia (UKM) and Universiti Teknologi Mara (UiTM) Zakat Centre.”

2.4 Amount Paid for Zakat

Having a statement of how much zakat was paid, they will be entitled a score of 1 but only if the amount is stated in the statement of cash flows. If it is stated elsewhere, it can be statement of zakat expense thus, it will be considered invalid.

For this item, out of fifteen, only ten banks stated how much they paid for zakat. Half of it stated separately from taxation paid and another half stated together with taxation. For example, it is stated in the financial statements of Bank L, “Taxes and zakat paid”. In this case, it is impossible to know the actual amount of zakat paid. Thus, implying that these banks did not disclose the information required by AAOIFI, JAWHAR and MASB.

In the case of Bank B and Bank J, both stated that they do pay zakat on business however, they do not state how much they pay for zakat in the statement of zakat because it became the responsibility of its Holding Company or the main shareholders.

It is stated that in the financial statements of Bank B and Bank J, “The zakat provision is borne by the Bank’s Holding Company” and “…Zakat would be paid by the main shareholder…” respectively.

2.5 SSB Attestation That Zakat Has Been Computed According to Shariah

A statement as mentioned above, or a similar statement such as in the annual report of Bank E, it is stated “The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles …” will be recognised. Hence, they will be given a score of 1. Out of fifteen, ten banks are given a score of 1.

2.6 Rate Used

Having a statement of the rate used, they will be entitled a score of 1. For this item, only seven banks disclosed their rate to calculate zakat. The table below illustrates the rate used if stated in the annual report:

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Rate used</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bank A</td>
<td>2.5775%</td>
</tr>
<tr>
<td>2.</td>
<td>Bank C</td>
<td>2.575%</td>
</tr>
<tr>
<td>3.</td>
<td>Bank D</td>
<td>2.5%</td>
</tr>
<tr>
<td>4.</td>
<td>Bank F</td>
<td>2.5%</td>
</tr>
<tr>
<td>5.</td>
<td>Bank L</td>
<td>2.5%</td>
</tr>
<tr>
<td>6.</td>
<td>Bank N</td>
<td>2.5%</td>
</tr>
<tr>
<td>7.</td>
<td>Bank O</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

From the table above, out of 15 Islamic banks, only seven banks disclosed about their zakat rate in their annual reports. There are five Islamic banks that choose 2.5% as their zakat rate. Bank A and Bank C choose 2.5775% and 2.575%. There is only two rates that are preferred by AAOIFI, JAWHAR and MASB which are 2.5% and 2.5775%. However, none of the standards
and guidelines recommend the used of 2.575%. It is hoped that the SSB and SC of the respective banks should provide an explanation and justification why the basis is not as what has been proposed by the existing standards and guidelines.

3) Challenges in zakat computation and disclosure in Islamic banks in Malaysia.

Interviews are conducted mainly to answer this research question. This is because interviews offer an in-depth information rather than depending on the published annual reports. In addition, there is no literature found on this topic.

The first question that was asked is about the challenges in computing zakat. Bank L responded that there are no challenges in computing zakat. This is because they follow directly with what JAWHAR has prepared in the Zakat Management Manual as the formula in the manual is quite straight forward. Having the formula and a balance sheet of any bank, anyone can roughly calculate the zakat. However, the adjustments are not included in the balance sheet.

This is also one of the challenges in calculating zakat mentioned by the officer of Bank E. In the interview, he stated that there is the issue of mismatching of assets and liabilities. The business that banking involves in is all about cash. They had list of short-term assets or financing etc. and a list of long-term liabilities or customers deposits. The financing is in a fixed and longer term which may range from 30 days until 30 years and above. However, on the liability side, the shortest asset might be in a split second as it just passed through Bank E to another bank and the longest might reach 5 years’ time.

From the researcher point of view, this is the issue of doing the adjustment. This is because JAWHAR in its Zakat Management Manual only provides the parameters for the adjustment and it depends on each bank to interpret and quantify those parameters.

As for Bank E, the officer said that there are two other challenges. Firstly, to educate Finance Division about zakat computation. It is important that Shariah Division to work closely with Finance Division as the latter is the one who is holding the key to bank’s assets and general ledger meanwhile the former is the one who knows how to calculate zakat.

Secondly, the officer from Bank E said that there is a shortage of expertise on zakat on banking business in the zakat authorities. Thus, they need to explain why zakat computation is like that and what they have adjusted to the zakat authorities.

The second question that was asked to the interviewees is pertaining the challenges in zakat disclosure in the annual report. In the interview, Bank E and Bank L responded that because there is no requirement by BNM, it made the job easier for them. As mentioned, BNM’s Financial Reporting for Islamic Banking Institution only highlighted four items that need to be disclosed in the annual reports. However, it is disappointed to say that Bank L is not aware of the last item required by BNM that needs to be disclosed. It is the statement of who is the recipient of their zakat fund. Nevertheless, they are hoping to improve and include that item in the next year’s annual report.
Bank E added another challenge in zakat disclosure. It is important to note that annual reports are an important tool in communication to the public. However, there is confidential information that banks do not want to unveil. It is also difficult to decide and analyse the adjustments that need to be calculated and disclosed as the adjustments are mainly from last month of the financial year i.e. for the case of Bank E is the month of December.

In conclusion, the main challenge that arises in zakat computation and disclosure is the issue of adjustment. It is difficult for the banks to identify and quantify what assets and liabilities that need to be adjusted. Secondly, the lack of guidelines and standards in the zakat disclosure. It is up to the banks disclose what information in the annual reports. Thus, leading to one question raised by Bank L, “What is the minimum disclosure that is considered sufficient?”.

Thirdly, the lack of exposure in zakat computation and disclosure. The parties involved in both matters should know extensively in doing so. This also includes parties that involved directly and indirectly in zakat computation and disclosure. In this matter, Finance Division and zakat authorities should be educated in zakat computation disclosure. Finance Division is the one that is holding the key to financial disclosure and zakat authorities are the one who will be receiving the zakat fund from the banks and in the case of Bank E, they have mandated a portion of the zakat fund to be distributed as an agent of distribution.

CONTRIBUTION OF THE STUDY

The study of zakat computation and disclosure by Malaysian Islamic banks is valuable for a number of reasons.

First, this study contributes to the extent literature on zakat computation and disclosure, particularly zakat practices of Malaysian Islamic banks. Currently, there are studies done by Samad and Said (2016), Hamat and Hanapi (2016) and Badarulzaman et al. (2016). The study by Samad and Said (2016) examined 16 Malaysian Islamic banks during the year 2014. They found out that 12 Islamic banks acknowledge that they are liable to pay zakat. (Abd Samad & Said, 2016) However, this research has identified that 13 Islamic banks are liable to pay zakat in year 2017. In addition, Hamat and Hanapi (2016) studied about current zakat computation and they claim that the accounting for corporate zakat is now standardised. This research found that the accounting for corporate zakat is varies and it depends on the Islamic banks to disclose their zakat information. This complies with the research conducted by Badarulzaman et al. (2016).

Furthermore, Hamat and Hanapi (2016) also claim that only Adjusted Working Capital Method is used in Malaysia for Islamic banks. (Hamat & Hanapi, 2016) Nevertheless, this research found that there are many methods used for zakat computation and the most commonly used is Adjusted Growth Method. Second, the study found that there is little information about zakat that is disclosed in the annual reports. Thus, it is important for the regulators to issue a standard or guideline in zakat so that there will be standardisation in zakat computation and disclosure.

CONCLUSION

In conclusion, based on the findings of this study, Adjusted Growth Method is the commonly used method in zakat computation. It is also found that Bank N and Bank O are the highest ranking for zakat disclosure based on Zakat Disclosure Checklist. Overall, the factors that attribute to less of reporting on zakat disclosure by the Islamic banks are because of several factors. First, the lack of standards and guidelines to be practiced by the practitioners. The
existing standards and guidelines do not offer a wide-range of information on zakat disclosure and the adjustments that need to be considered in the computation. Second, the lack of exposure on the zakat standards and guidelines. Thus, in the future there should be many conferences, training, discussion related to the zakat computation and disclosure.

REFERENCES


