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Voluntary zakat disclosure of Islamic banks in Malaysia

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ABSTRACT

The primary objective of this paper is to scrutinize the voluntary zakat disclosure practices and the methods employed for zakat computation within Islamic banks in Malaysia. Additionally, the study aims to explore the relationship between zakat disclosure and specific characteristics, including the amount of zakat, the size of the bank, and profitability. The methodology involves an initial content analysis of the annual reports of 17 Islamic banks in Malaysia. The findings highlight the prevalent use of the Adjusted Growth Method as the primary approach to zakat computation by Islamic banks. Furthermore, certain banks exhibit a more comprehensive disclosure of zakat information, both financial and non-financial, within the Shariah Committee Report and the Notes to the Financial Statements. Upon analysis, the results indicate a positive and significant relationship between the amount of zakat and zakat disclosure. These findings carry crucial implications for Islamic banks, emphasizing the need to enhance transparency, accountability, and comparability in their disclosure practices. Such improvements not only have the potential to positively impact financial performance but also contribute to building the reputation of Islamic banks among various stakeholders.

1. Introduction

Islamic banks (IBs) continue to assert their dominance, accounting for a substantial 68.7% share of the global Islamic financial services industry (IFSI) assets in 2021, with an anticipated increase to USD 2.10 trillion (IFSB, 2022). A recent report underscores the significance of annual zakat contributions, estimating a noteworthy USD 300 billion across the Islamic world (IFSB, 2022). Within the Malaysian governance framework, zakat assumes a pivotal role, functioning not only as a religious obligation but also as a strategic financial instrument. It serves as a means of savings and contributes to state coffers, fostering human development and stimulating long-term economic growth in alignment with fiscal policy. The tangible impact of zakat is evident in the figures reported by The Federal Territory Islamic Religious Council Zakat

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Collection Centre (PPZ-MAIWP) for the first half of 2023. Zakat collections during this period witnessed a commendable 9% increase, reaching RM462 million compared to RM423 million in 2022 (The Malaysian Reserve, 2023). Recognized as one of the leading international Islamic Financial Institutions (IFIs), the Islamic banking industry in Malaysia has garnered acclaim, with consistent year-on-year improvements in its financial performance.

In adherence to Islamic law, an Islamic bank is obligated to pay zakat-ul-maal if its net profit for a given year surpasses the nisab threshold (Riani & Rusydiana, 2022). In the Malaysian context, the payment of zakat by Islamic banks typically occurs upon the recommendation of their Shariah Committee, and the specific amount payable is disclosed publicly in the financial statements (Mohd Ariffin & Osman, 2022). To facilitate the reporting of zakat obligations, various accounting standards have been established, both within Malaysia and globally. One such standard is Accounting and Auditing Organisation for Islamic Financial Institutions' (AAOIFI) Financial Accounting Standard (FAS) 9, which guides Islamic banks in Malaysia (AAOIFI, 2020). However, there are variations in practices between countries, and certain standards may not be applicable. For instance, the practice of Ijarah Thumma Al-Bai' (AITAB) is specific to Malaysia and not observed in Bahrain. The financial reporting practices of Islamic banks in Malaysia fall under the regulatory oversight of Bank Negara Malaysia, governed by the Islamic Banking Act of 1983 (IBA). Conventional banks participating in the Islamic Banking Scheme (IBS banks) are regulated under the Banking and Financial Institutions Act of 1989 (BAFIA). This regulatory framework ensures the adherence of Islamic banking financial reporting practices to established standards and guidelines.

The Department of Waqf, Zakat, and Hajj (JAWHAR) issued a zakat manual tailored specifically for the banking industry in 2010. This manual delves into the intricacies of zakat calculation for banks, encompassing the methodology for determining the fundamental aspects of zakat calculation, adjusting items within the calculation, and establishing the zakat rate applicable to banking institutions. Simultaneously, Bank Negara Malaysia has brought attention to the Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i). These guidelines outline the minimum disclosure requirements that Islamic banking institutions should adhere to. Furthermore, Islamic financial institutions are required to make disclosures in their financial statements in accordance with the Malaysian Financial Reporting Standards (MFRS) framework issued by the Malaysian Accounting Standards Board (MASB). In response to the unique needs of Islamic financial practices in Malaysia, MASB introduced the Technical Release TRi-1. This supplementary release focuses specifically on the presentation of financial statements for Islamic financial institutions, taking into account both Islamic financial principles and the regulatory and economic landscape in Malaysia.

Generally, Islamic banks predominantly adopt the International Financial Reporting Standards (IFRS) for reporting information, supplemented by additional technical releases as guiding principles. This approach aims to enhance comparability and consistency in the recognition, measurement, and disclosure of Islamic-based transactions. The integration of technical releases is anticipated to contribute to the transparent and comprehensive disclosure of financial reporting, addressing the diverse needs and accountabilities of various stakeholders. However, despite standardization efforts, there exists considerable variation in the disclosure practices of zakat among Islamic banks. Some choose to voluntarily disclose both financial and non-financial aspects of zakat in their financial reports. This diversity in practices is a reflection of the ongoing debate surrounding the method and calculation of zakat among Islamic banks, with some institutions employing different methods and rates of zakat calculation. Against this backdrop, this study endeavors to analyze the voluntary zakat disclosure in the financial reports of Islamic banks. It seeks to comprehensively discuss the existing zakat disclosure practices and zakat computation methods evident in the annual reports of Islamic Banks in Malaysia. Furthermore, the study aims to examine the relationship between zakat disclosure as the outcome and specific predictors, namely the amount of zakat, the size of the bank, and profitability.

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2. Literature review

2.1 Corporate zakat

Zakat, one of the core tenets of Islam, stands as the third pillar of the faith and is considered one of the five fundamental obligations. Functioning as an obligatory form of worship, known as 'Ibadah, it is a divine prescription from Allah. The mandate for zakat is explicitly outlined in the Qur'an, in Chapter Al-Hajj, verse 78:

"… so establish Salat and give Zakat, and hold fast to Allah …" (Quran, 22:78)

The obligation of zakat is considered a crucial duty akin to the duty of Salat (prayer). Referenced nearly eighty times in the Qur'an alongside the obligation of prayers, this emphasizes the significant role of paying zakat as an obligation for Muslims. Abd Wahab and Abdul Rahman (2011) assert that the primary objective of zakat is to achieve socioeconomic justice, acting as a mechanism to balance and safeguard the socioeconomic welfare between the affluent and the less privileged. The discussion of zakat on business entities, including Islamic banks, has been extensive. The necessity for a robust accounting and reporting system for Islamic banks has been emphasized since the 1990s to align with Shariah requirements and remain relevant (Suhaila, Nor & Bahari., 2019). Adnan and Abu Bakar (2009) conducted a review on the accounting treatment for corporate zakat practiced by Islamic financial institutions, based on accounting standards and guidelines. Both zakat-related standards, FAS 9 and Technical Release i-1 (TR i-1) "Accounting for Zakat on Business," were scrutinized, and the practices of Islamic financial institutions were analyzed for compliance with these standards and adherence to the true spirit of zakat from an Islamic perspective. The findings revealed certain inadequacies in corporate zakat recognition, unstandardized measurements, and consequently, insufficient presentations and disclosures. These inaccuracies are incongruent with the true spirit of the philosophy of zakat in Islam.

Abu Bakar (2007) advocated the necessity of a Zakat Accounting Standard (ZAS) to standardize zakat practices in Malaysia. She contended that the development of ZAS is crucial to address financial and reporting issues stemming from diverse practices. Furthermore, the establishment of a standard is expected to foster a consistent zakat accounting method, reducing disparities among firms that pay zakat. These disparities may encompass computation methods, the measurement of zakat assets, zakat recognition, and the items of disclosure and presentation in financial statements. The study emphasizes that ZAS goes beyond standardizing zakat practices among companies; it also serves the interests of stakeholders and the public at large. This aligns with the concept of *maslahah* (public good), which holds significance in Islam for deriving appropriate rules for economic transactions. In this regard, Abu Bakar (2007) suggests collaborative efforts involving various parties to contribute to the design of ZAS.

2.1 Zakat computation

Concerning zakat computation, Islamic banks typically disclose their computation methods in financial statements. Over the past two decades, there has been a growing interest in harmonizing accounting and financial reporting within Islamic banks. AAOIFI's FAS 9 recommends two zakat computation methods: Net Assets and Net Invested Funds. However, Ibrahim, Abdullah, Abdul Kadir, and Adwam Wafa (2012) contend that the AAOIFI standard may not be suitable in the Malaysian context. They advocate for the guidelines from JAWHAR and MASB, which, in the Malaysian environment, suggest the Adjusted Working Capital Method and the Adjusted Growth Method (Mohd Ariffin & Osman, 2022). Badarulzaman, Azhar, and Ismail (2016) argue that there is a lack of standardization in zakat computation, resulting in variations in methods and assessments. They attribute this variation to the resolutions and rulings made by Shariah Committees.

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Noor, Anas, and Zulkipli (2017) identify six frequently used business zakat accounting models in Malaysia: Current Assets Method, Working Capital Method, Adjusted Working Capital Method, Working Capital Method plus Investment Income, Capital plus Profit Method, and Income or Profit Method. They note that the Adjusted Working Capital Method, Adjusted Growth Capital Method, and Profit and Loss Method are prevalent models adopted by businesses in Malaysia. Supporting this, Abojeib et al. (2019) find that Islamic banks in Malaysia utilize a diverse range of zakat calculation methodologies. The applicable zakat rates differ, and there is a mix of approaches, including the application of a 2.5% lunar rate for the solar calendar year, the use of 2.5% in the statement of profit or loss, and varying understandings of zakat on business or on shareholders, with some entities not paying zakat.

Both AAOIFI and JAWHAR stipulate that the zakat rate of 2.5% should only be applied to the lunar (Hijri) year, which consists of 354 days. In the case of the solar year, with 365 days, a modification is required to account for the differences in the number of days. This modification involves using a rate of 2.5775% to accommodate the extra days in the 365-day solar year, commonly used in Malaysia. A study by Abojeib et al. (2019) reveals that the majority of Islamic Financial Institutions (IFIs), including Islamic banks, do not disclose the rate applied for zakat calculation. Among those that do disclose, most Islamic banks apply a 2.5% rate for zakat calculation. The method of zakat calculation can vary among different banks. Some banks choose to calculate the rate based on the Gregorian calendar, which consists of 365 or 366 days, while others prefer to use the Hijri calendar, which has 354 or 355 day. Consequently, the varied rates employed result in different amounts of zakat being calculated.

2.2 Disclosure of zakat

Several recent studies, including the work of Mohd Ariffin and Osman (2022), have examined zakat disclosure practices among Islamic banks. Mohd Ariffin and Osman's (2022) study focuses on the current zakat practices of Islamic banking institutions in Malaysia, specifically exploring zakat computation methods and disclosure. Their findings highlight that the Growth Method is the most commonly used approach in zakat computation. Additionally, some banks choose to disclose more zakat information in the Shariah Committee report and the Notes to the Financial Statements. The study suggests that the choice of method is, to some extent, influenced by the challenges faced by these institutions. Another relevant study by Said and Abd Samad (2016) investigates zakat disclosure among Islamic banks listed under Bank Negara Malaysia. The study indicates an overall mean zakat disclosure of 0.70 for Islamic banks, with Bank Islam Malaysia, AmIslamic Bank, and Hong Leong Islamic Bank scoring the highest disclosure at 0.80.

Furthermore, Al-Homaidi et al. (2021) conducted an analysis examining the relationship between zakat information disclosure and the performance of Islamic financial institutions in Yemen. The financial performance of banks was assessed using two proxies: return on assets (ROA) and return on equity (ROE). The findings indicate that zakat data and the age of a bank significantly impact financial results calculated by ROA. In contrast, the size of Islamic banks showed an insignificant influence on banking performance. Zakat information and the size of Islamic banks exhibit a positive effect on bank performance, while the age of the bank negatively influences bank performance. Regarding ROE, the results suggest that zakat data and the age of a bank exert a strong and significant influence on bank performance, as determined by ROA. However, the size of a bank has a negative and insignificant effect on bank performance, as determined by ROE.

In accordance with the findings of Iffah and Hassan (2020), 12 out of 16 Islamic banks disclosed their zakat payments for the year 2018. Among these, seven banks disclosed zakat payments independently, while the remaining five incorporated zakat with tax. The study revealed a substantial amount of business zakat paid by the Islamic banks, totaling RM29.9 million for that year. However, it is suggested that zakat payment disclosure may not be appropriately presented when combined with tax liability. Furthermore, several studies have focused on zakat disclosure through social reporting by Islamic banks. In a study by Riani & Rusydiana (2022), the impact of zakat disclosure on Islamic banking performance was explored by applying corporate social responsibility (CSR) to financial performance metrics such as return on assets and return on equity. The results indicate that the contribution of zakat disclosure as a form of corporate social responsibility has a positive and significant effect on the financial performance of Islamic banks in Indonesia. This study supports the stakeholder theory, suggesting that Islamic banks prioritizing social obligations experience improvements in their financial performance.

Hossain and Hammami (2009) conducted an empirical examination of the determinants of voluntary disclosure in the annual reports of 25 listed firms on the Doha Securities Market (DSM) in Qatar, constituting approximately 86% of the total firms incorporated in DSM. They developed a disclosure checklist comprising 44 voluntary items of information and utilized multiple regression analysis for statistical analysis. The findings revealed that age, size, complexity, and assets-in-place were significant determinants of voluntary disclosure, while profitability was found to be insignificant in explaining the level of voluntary disclosure.

In another noteworthy study on social reporting, Maali et al. (2006) focused on social reporting by Islamic banks. The study utilized a sample of 88 fully-fledged Islamic banks identified from the International Directory of Islamic Banks and Institutions issued by the Institute of Islamic Banking and Insurance in London (IIBI, 2000). They collected 29 annual reports for the year ended 2000 from 16 countries and analyzed the data by comparing it with a social disclosure benchmark consisting of nine categories. The study found that banks required to pay Zakat provided more social disclosures than those not required to pay Zakat. Additionally, most Islamic banks published the report of the Sharia Supervisory Board, indicating the report's significance in assuring users of financial statements that the bank adheres to Islamic principles. Despite this, Maali et al. (2006) suggested that the levels of social disclosure by Islamic banks fell short of their benchmark, noting that Islamic banks tended to disclose a 'good signal' rather than a 'worse signal' to the public.

In a relevant study, Haniffa & Hudaib (2007) delved into the ethical identity of Islamic banks through communication in annual reports. This longitudinal study spanned a five-year period from 2000 to 2004 and included a sample of seven Islamic banks operating in the Arabian Gulf region. The primary aim was to investigate whether any discrepancies existed between communicated information (based on annual report disclosures) and ideal information (assessed using a disclosure checklist termed the Ethical Identity Index (EII)). Employing a content analysis method, the study examined the communication practices of Islamic banks. The scoring approach for items was dichotomous, with an item scoring one (1) if communicated in the annual report and zero (0) if not communicated. An important finding highlighted by the study was the largest incongruence related to the contribution to and management of zakat.

3. Research methodology

This quantitative study relies on the annual report as its primary document due to its effectiveness in delivering comprehensive financial and non-financial information to users. The annual report is considered a superior medium compared to other forms of communication, such as websites, pamphlets, brochures, and leaflets. The study utilizes the annual reports of 17 Islamic banks for the financial years 2020 to 2022. It's essential to note that the study does not assess the quality of zakat disclosure. This decision stems from the fact that items in AAOIFI FAS 9 and MASB TRi-1 are not mandatory standards for Islamic banks in Malaysia. Rather, they are considered as assumed valid standards, and compliance with their requirements is voluntary for Islamic banks. Consequently, the study does not place significant emphasis on evaluating the quality of zakat disclosure, as it may not yield substantial impact or results given the voluntary nature of adherence to these standards.

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The study has formulated a Zakat Disclosure Checklist to assess the disclosure of zakat accounting information, as recommended in AAOIFI FAS 9 and MASB Tri-1, with the intention of inclusion in financial statements. Annual reports were meticulously examined to compile zakat-related information. The checklist's items will be evaluated using either the Disclosure Index (DI) or Disclosure Length (DL). DI employs the index approach (assigning a score of '1' for disclosure and '0' for non-disclosure), while DL utilizes a content analysis approach, measuring the number of words as the unit of analysis. These methods align with those employed by Haniffa and Hudaib (2004). Subsequently, the findings from both disclosure methods will be analyzed to calculate the final mean score, allowing the banks to be ranked from the highest to the lowest disclosure mean score. Following this, Pearson correlation and regression analysis will be conducted to explore the factors influencing the extent of zakat disclosure.

3.1 Zakat Disclosure Checklist

The Zakat Disclosure Checklist has been devised by integrating AAOIFI FAS 9 and MASB TRi-1, both of which are relevant to accounting practices for zakat. This checklist outlines the minimum requirements for Islamic banks to disclose in their financial reports. The final checklist comprises 10 disclosure items, categorized into three themes: Recognition, Measurements, and Reporting. Table 1 provides an overview of the Zakat Disclosure Checklist based on measurements.

Table 1. Zakat Disclosure Checklist

Themes	Measurements
Recognition	
1- The amount of zakat assessed as an expense	Index (DI)
2- Zakat treatment in the income statements	
3- Method of zakat valuation	
Measurements	Index (DI)
4- Method used in the determination of zakat base	
5- Calculation of zakat base	
Reporting	Length (DL)
6- Responsibility towards zakat obligation	
7- Major components of zakat	
8- Information on distribution of zakat	
9- SSB attestation regarding the computation of zakat	
10- Other useful information to users	

3.2. Dependent and Independent variables

The study incorporates 10 items as dependent variables, comprising 5 items from the disclosure index (related to recognition and measurements) and 5 items from the disclosure length (pertaining to reporting). Additionally, the study hypothesizes three independent variables (IV): amount of zakat, size, and profitability. Previous research by Hossain and Hammami (2009) suggests that age, size, complexity, and assets-in-place are significant, while profitability is insignificant in explaining the level of voluntary disclosure. In contrast, Hossain's (2008) findings indicate that size, profitability, board composition, and

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market discipline variables are significant, while other variables such as age, business complexity, and assets-in-place are insignificant in explaining the level of disclosure. This study focuses on three specific firm characteristics that may contribute to the disclosure practices of banking institutions. The following table illustrates the firm-specific characteristics utilized in this research.

Table 2. Independent variables and their measurements

Independent variables	Measurements	References
Amount of zakat	Total amount of zakat paid during a year	Maali et al(2006)
Size	Total assets	Hossain & Hammami (2009)
Profitability	Return on equity (net profit/total shareholder’s equity)	Hossain & Hammami (2009)

3.3 Amount of zakat

Maali et al. (2006) contend that banks subject to zakat disclose more corporate social responsibility information than Islamic banks not subject to zakat. The amount of zakat paid by banks might influence the level of zakat disclosures. It is anticipated that the zakat amount is associated with the level of disclosure, and vice versa. Therefore, it is hypothesized that the higher the amount of zakat paid by banks, the greater the number of zakat-related information disclosed. The zakat paid by banks is a reflection of their financial health and commitment to social responsibility. A higher amount of zakat paid indicates that the bank is doing well financially and is able to contribute more to society. This could lead to increased transparency and disclosure as the bank would want to showcase its contributions and gain public trust. Conversely, a lower amount of zakat might indicate financial difficulties or a lesser commitment to social responsibility, which could result in less disclosure due to fear of negative public perception. Therefore, this proposition leads to the following hypothesis:

H1. Amount of zakat significantly positive influences voluntary zakat disclosure

3.4 Size

The size of banks will be measured based on the total assets of the banks. This is a potentially significant variable in relation to the extent of zakat disclosure. Numerous previous studies in this area have found a significant relationship between the size of the company and the extent of zakat disclosure. For instance, Hossain (2008) and Hossain and Hammami (2009) noted that larger companies are likely to have more extensive disclosures than small companies, owing to the presence of many stakeholders.

The size of a bank, as measured by its total assets, can indeed have a significant impact on the extent of zakat disclosure. Larger banks tend to have a more diverse group of stakeholders, including shareholders, employees, customers, and regulatory bodies, all of whom may require detailed information about the bank’s zakat contributions. This demand for transparency often leads larger banks to provide more extensive zakat disclosures.

Additionally, larger banks typically have more resources and established processes for compliance, which can facilitate more comprehensive and regular zakat disclosures. These arguments lead to the following hypothesis:

H2. Size of the bank significantly positive influences voluntary zakat disclosure

3.5 Profitability

Numerous studies have identified a significant relationship between profitability and the extent of zakat disclosure. According to Hossain and Hammami (2009), companies with higher profits tend to be more inclined to disclose detailed information in their annual reports. This inclination is driven by the desire to justify their financial performance and reduce political costs. In this study, Return on Equity (ROE) is used as a measurement of profitability because it is a significant factor influencing profitability for Islamic banks, as indicated in the study by Ramlan and Adnan (2016). A higher ROE correlates with better profitability and, consequently, a greater propensity for voluntary zakat disclosure.

Profitability, as measured by Return on Equity (ROE), can indeed influence the extent of zakat disclosure. A higher ROE indicates better financial performance, which companies are often eager to highlight to stakeholders through comprehensive disclosures. This not only enhances the company's reputation but also helps to build trust with stakeholders. Furthermore, by voluntarily disclosing zakat information, profitable companies can demonstrate their commitment to social responsibility, further enhancing their public image. Therefore, it is hypothesized that:

H3. Profitability significantly positive influences voluntary zakat disclosure

4. Findings and analysis

In terms of the overall percentage of Disclosure Index (DI), approximately 59% (10 out of 17 banks) successfully disclosed more than 50% of the required zakat disclosure elements. These banks provided information on various aspects, including the amount of zakat assessed as an expense, zakat treatment in income statements, the method of zakat valuation, method used in determining zakat base, and calculation of zakat base. This is reflected in the higher overall mean percentage. On the other hand, the remaining banks (7 out of 17) fell short of disclosing at least 50% of the zakat requirements. Most of these banks, primarily non-zakat-paying institutions, disclosed less information on both zakat and non-zakat-related aspects in their annual reports. While some banks demonstrated improvement in their disclosure practices compared to the previous year, the overall observation indicates that reporting disclosures among banks are still limited. Notably, approximately 65% (11 out of 17 banks) showed the highest percentage gap in terms of Disclosure Length (DL). This suggests that reporting on zakat information in annual reports remains a relatively neglected aspect for the majority of banks. Non-zakat-paying banks, in particular, exhibited the lowest percentage of DL on zakat information. The detailed findings for each disclosure item are presented below.

4.1 Method of zakat valuation

The most extensively disclosed item in the Disclosure Index was the method of zakat valuation, registering a mean of 87.47%. This suggests that the majority of banks included information on the method used for zakat valuation in their financial statements. The disclosed methods typically encompass cash equivalent value, historical cost, or fair value. Given that these banks adhere to International Financial Reporting Standards (IFRS) in financial statement preparation, their practices align with IFRS guidelines.

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IFRS emphasizes the use of fair value over historical cost, indicating that, for zakat purposes, all items should be recorded based on fair value (Maali et al., 2006).

4.2 Accounting treatments on zakat

The majority of banks disclosed zakat as a non-operating expense, deducted from net income, aligning with standard requirements. The standard stipulates that the assessed amount of zakat should be recognized as an expense in the period it is incurred in the income statements. This expense is categorized as non-operating and deducted from net income. Non-paying zakat banks, however, did not disclose these items, as they are not obligated to pay zakat.

4.3 Assessment of zakat

The majority of Islamic banks have disclosed the method used to determine zakat base in their financial statements. Nine banks opted for the Growth Method or Working Capital Method in accordance with JAWHAR and MASB guidelines. Another bank used the Opening Reserve Method, while another used the profit and loss method. The variation in methods could be attributed to differences in Shariah Committees and schools of thought. Different banks follow their Shariah Committee's decisions, resulting in diverse zakat determination methods. Al-Habsyi (2005) supports this, highlighting that zakat measurements stem from juristic conditions and Shariah rules. One bank did not disclose its zakat calculation method without providing an explanation in the financial reports.

Regarding the zakat rate, only five Islamic banks disclosed it in their annual reports. Most of them used the 2.5% rate set by the National Fatwa Council in Malaysia. Some banks use a zakat rate of 2.575%, which is based on the Gregorian calendar, while others use a rate of 2.5775%, based on the Hijri calendar. This slight variation in the rate accounts for the difference in the number of days in each calendar year. The remaining banks did not disclose the zakat rate in their annual reports.

4.4 Responsibility towards zakat obligation

Majority of Islamic banks stated their responsibilities towards zakat obligation in the Shariah Committee report whether it was paid on its business or paid on behalf of the shareholders or depositors. Majority of them were paid zakat on its business. Some Islamic bank lays the obligation and responsibility of zakat payment in the parent company, or ultimate individual shareholders and depositors of the bank. Some non-paying zakat banks also stated the statement on no zakat obligation was paid during the year. However, it does not state the reasons.

4.5 Statement on SSB attestation

The Shariah Supervisory Board (SSB), or commonly referred to as the Shariah Committee, holds specific responsibilities regarding zakat, including; (a) Reviewing the computation of zakat and approving the amount to be paid according to Shariah, and (b) Advising on the payment of zakat to the appropriate authority. Most Islamic banks did mention the SSB's attestation in their Shariah Committee's Report.

4.6 Information on zakat distribution

Information on zakat distribution remains limited in the annual reports of Islamic banks. Only a few banks have disclosed details regarding the distribution of zakat, mentioning that it is distributed to the state zakat center or as part of the banks' Corporate Social Responsibility (CSR).

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4.7 Pearson correlation

The Pearson Correlation is utilized as an alternative measure to assess the strength of the relationship between the variables. The table below provides a summary of the Pearson correlation results between DI and DL with three independent variables: zakat amount, total assets, and return on equity. These results were generated using SPSS software.

Table 3. Pearson correlations

Variables	**DI**	**DL**
DI	1	-
DL	0.358	1
Zakat amount	0.173	0.272*
Total assets	0.103	0.025
Return on equity	0.179	-0.049

Note: **.Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

According to the Correlations table, the zakat amount demonstrates a low to moderate correlation with the disclosure length, and this correlation is statistically significant at the 5% level ($p < 0.05$). This suggests that the zakat amount variable exhibits a relatively stronger correlation with the disclosure length. On the other hand, total assets show a low correlation with the disclosure index, but the correlation is not statistically significant. This implies that the size of the bank, as measured by total assets, may have a minor influence on the disclosure level. Furthermore, return on equity indicates a low correlation with the disclosure index, but the correlation is not statistically significant. Additionally, return on equity shows a negative correlation with the disclosure length.

4.8 Regression analysis

The linear regression analysis was conducted to assess the relationship between the dependent variable (voluntary zakat disclosure) and the significant influencing variables, namely zakat amount, total assets, and return on equity. The results are summarized in the tables below:

Table 4. Regression analysis

Variables	**DI**			**DL**		
	β	*t*	*p*	β	*t*	*p*
Amount of zakat	0.146	2.154	0.004**	0.374	2.785	0.002**
Total assets	0.103	0.241	0.210	0.127	2.906	0.015*
Return on equity	0.149	1.154	0.253	-0.112	-0.899	0.045

Table 5. R-square and F-change statistics

Variables	Standardized Beta (Dependent variable)	
	DI	DL
R square	0.248	0.204
Adjusted R square	0.245	0.201
F change	1.185	2.710
Significant F change	0.322	0.052

The table above provides a summary of the linear regression analysis, indicating that 24.8% of the variation in the extent of voluntary disclosure measured by DI can be explained by the three independent variables. Similarly, 20.4% of the variation in the extent of voluntary disclosure measured by DL can be explained by these variables. The coefficients were examined to determine the impact of each variable on the extent of voluntary disclosure.

The test results for the first hypothesis (H1) support the assertion that there is a significant positive relationship between the amount of zakat and the extent of zakat disclosure. This implies that a higher amount of zakat paid by banks is associated with a greater level of zakat information being disclosed. The rationale behind this finding is that banks paying higher amounts of zakat may feel the need to provide detailed justifications and information, down to specific details. This aligns with previous studies, such as Maali et al (2006), which suggested that zakat-paying banks tend to disclose more social information in their financial statements compared to non-zakat paying banks. For instance, higher zakat amounts may prompt banks to include detailed statements from the Shariah Supervisory Board, attesting to the proper computation of zakat, the sources and distribution of zakat funds, the balance of undistributed zakat funds, and reasons for any delays in distribution if the amount is material.

The results of the test for the second hypothesis (H2) reveal that there is a positive relationship between the size of banks, measured by total assets, and the extent of zakat disclosure (DI and DL). However, this relationship was found to be not statistically significant. In essence, while the size of banks may have some influence on the voluntary zakat disclosure, the impact is considered low. Therefore, H2, which suggests a significant positive relationship between the size of banks and the extent of zakat disclosure is not supported by the findings.

The findings related to the third hypothesis (H3), examining the relationship between profitability (measured by return on equity - ROE) and the extent of zakat disclosure (DL), indicate a negative correlation. This implies that the profitability of banks is not significantly associated with the voluntary zakat disclosure in terms of the number of words disclosed. The analysis suggests that regardless of the level of profitability, there is no significant relationship with the extent of zakat disclosure in the context of the number of words used. One possible explanation could be the highly regulated nature of the banking industry, where all institutions, irrespective of profitability, must adhere to guidelines and standards imposed by regulators. Consequently, the hypothesis suggesting a significant relationship between profitability and zakat disclosure is not supported by the findings.

5. Discussion and conclusions

The study has successfully addressed both of its research objectives. Firstly, an analysis of the overall percentage of Disclosure Index (DI) revealed that approximately 59% (10 out of 17 banks) managed to disclose over 50% of the required zakat disclosure components. On the contrary, 7 out of 17 banks fell short of meeting this minimum disclosure threshold, primarily observed among non-paying zakat banks. Moreover, almost 65% (11 out of 17 banks) exhibited a considerable gap percentage in Disclosure Length (DL), indicating a significant area for improvement, particularly in non-financial disclosures within annual reports. The findings suggest a positive trend in zakat disclosure practices among Islamic banks, with a growing emphasis on transparency. Most disclosed information aligns with guidelines set by Bank Negara, AAOIFI, and MASB. However, variations in practice, particularly in the calculation method for zakat base and zakat rate, remain notable. Some banks adopt different methods, warranting further clarification from Shariah Committees. This issue continues to be a focal point for discussion, as highlighted in previous studies.

Moreover, the study revealed that information on zakat distribution is the least disclosed aspect. This scarcity of disclosure could be attributed to the absence of a specific standard mandating compulsory disclosure, as it remains a voluntary practice. Some Islamic banks opt to disclose zakat distribution information through alternative channels such as bank websites, newspapers, pamphlets, and other mediums rather than in their annual reports. Notably, five Islamic banks provided no zakat disclosure in their annual reports. These include Standard Chartered Saadiq (due to Non-Muslim equity), Al-Rajhi Bank (zakat paid by the parent company), Kuwait Finance House Malaysia (zakat paid by the parent company), MBSB Bank Bhd (no zakat obligation for the bank, as it lies with individual shareholders and depositors), and HSBC Amanah Malaysia Berhad (no zakat payment due to Non-Muslim equity). The study suggests that Islamic banks should enhance communication on zakat disclosure to underscore their accountability to Allah.

In conclusion, the second research objective, which investigated the factors influencing the extent of voluntary zakat disclosure, yielded significant insights. The study found that the amount of zakat has a substantial and positive impact on the extent of voluntary zakat disclosure in the financial reports of Islamic banks. However, the size of the bank and profitability were identified as having insignificant effects on the extent of voluntary zakat disclosure. Notably, profitability demonstrated a negative influence on the extent of voluntary zakat disclosure. These findings contribute to the understanding of the dynamics that shape zakat disclosure practices in Islamic banks, emphasizing the central role played by the amount of zakat in influencing disclosure behavior.

The significance of zakat disclosure by Islamic banks can be elucidated through two theoretical lenses: Stakeholder Theory and Accountability Theory. According to Stakeholder Theory, Islamic banks are obliged to provide information perceived as crucial by their stakeholders. Given that zakat is considered a fundamental duty and act of worship ('Ibadah) with the aim of seeking Allah's pleasure in this world and the hereafter, it is viewed as important information to be disclosed by Islamic banks. This reflects not only accountability to society but, more importantly, accountability to God.

The study holds crucial implications for Islamic banks, highlighting the need to enhance transparency, accountability, and comparability to improve their financial performance and build trust among various stakeholders. Urgent attention is recommended for the standardization of zakat computation, zakat rates, and disclosure practices within the financial reporting framework for Islamic Banks in Malaysia. The research underscores the necessity for relevant authorities to establish a dedicated national committee overseeing zakat practices among Islamic banks and other entities. Regulatory bodies can play a pivotal role by forming a specialized committee to delve into the fundamental rules of zakat calculation, methods, and disclosure, fostering consistency and adherence to Islamic principles.

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Conflict of interest statement

The author declared that this research was conducted in the absence of any self-benefits, commercial or financial conflicts.

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