THE IMPORTANCE OF ZAKAT INSTITUTIONS IN MALAYSIA

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ABSTRACT

This paper discusses the various types of accountability that should be adhered by zakat institutions. This research was based on relevant literature from various sources. Zakat is one of the pillars of Islam. It stands with several pre-requisites. These pre-requisites are comprehensive; that cover zakat payers, the wealth that is subjected to the zakat rates and zakat recipients. History proved that zakat was able to eliminate poverty, as portrayed in the story of Caliph Umar Abdul Aziz. There was one time where they could not find any eligible recipients to receive zakat. Since the Islamic history has proven that zakat is able to generate a perfect social system, the government should take proactive actions in ensuring that the zakat institutions fulfilled the various types of accountability. Proper accounting and auditing could enable the institutions to fulfill their accountability, as these two elements were also emphasized during the era of Umayyad and Abbaseid. A developed nation is characterized by high income status of the people, thus zakat could be one of the avenue of achieving the status of a developed nation by the year 2020.

Keywords: zakat, stewardship, agency theory, Malaysia, accounting, auditing
Introduction

Zakat plays vital role for the Muslims. Allah S.W.T has emphasized on the importance of zakat payment where zakat has been mentioned 82 times in the Koran together with prayers (Abu Bakar, 2007; Nik Hassan, 2009; Qardawi, Hukum Zakat, 2010; Saleem, 2007). The payment of zakat is an order from Allah S.W.T to his servants, based on a Quranic verse, which is:

 خطب من أموالهم صدقة تطهيرهم وتركيهم بها وصار علىهم أن يصرفوا 

سبرن لههم ؛ أللّه سميع عليم

“Take alms of their wealth, wherewith thou mayst purify them and mayst make them grow, and pray for them. Lo! thy prayer is an assuagement for them. Allah is Hearer, Knower” (Koran, 9:103 as cited in Dar-us-Salam Publications)

Zakat concept

Zakat can be interpreted into two different literal meanings; purification and growth and fertility. Purification can be interpreted as a means to cleanse the heart of the zakat recipients and the zakat payers where it eliminates the feeling of envy and hatred among the individuals in the society. It also enables Muslims to remove the feeling of egoism and it prepares them to forfeit their wealth for the sake of Allah (Qardawi, 2010; Samad & Glenn, 2010; Abu Bakar, 2007; Nik Hassan, 2009). The growth and fertility means zakat recipients are able to utilize the wealth and achieve economic stability in the future where the recipients use the money to generate more income (Al-Qaradawi, 1973 as cited in Samad & Glenn, 2010; Nik Hassan, 2009; Qardawi, 2010).

Moreover, according to the Islamic jurisprudence, Qardawi (2010) defined zakat concept as an amount of wealth that Allah makes it compulsory to pay to the eligible persons, Abu Bakar (2007) defined zakat from the legal perspective as “the amount of money or kind taken from specific types of wealth when they reach a specific amount at a specific time which must be spent on specific categories in specific ways (p. 9). Zakat is a perfect system that helps to create stable and harmonious nation by taking some of the excess wealth from the rich and give it to the poor.

In order to show the importance of zakat, Allah S.W.T mentioned the word zakat around 82 times in the Koran, placed together in the importance with the prayers (Abu Bakar, 2007; Nik Hassan, 2009; Qardawi, 2010; Saleem, 2007). In conjunction with that, Samad and Glenn, (2010) confirmed that zakat could fulfill four main economics and social objectives, which are:

- **Zakat** can eliminate poverty and sustain socioeconomic justice;
- **Zakat** can preserve people from envy;
- **Zakat** can cleanse the wealth of payer’s and abolish stinginess
Zakat is a medium to keep faith on Allah’s bounties. 

Zakat is an obligation on Muslim (Qardawi, 2010; Saleem, 2007). Non-Muslims are not eligible to pay zakat. Muslims fulfilling the zakat obligation must be sane and able to differentiate between good and bad (Saleem, 2007; Qardawi, 2010). According to Hanafi school of thought, children and lunatics are not eligible to make zakat payment. Zakat is considered similar to the prayer where it requires intentions (niyah). If there is no intention, the prayer is considered invalid. Likewise, with zakat (Qardawi, 2010). It is based on the hadith of the Prophet Muhammad PBUH says:

“Free from religious obligations on these three people which are children until they are adult, the sleeping until they are awake and the insane until they are sound” (Al-Majmu’, volume 6:253 as cited in Qardawi, 2010)

This means only people who can differentiate between right and wrong (mukallaf) are obligated to fulfill the religious duty. However, the majority of the Muslim jurists agreed that children and the insane are subjected to the zakat. It is because zakat is calculated on the wealth possessed by the person (Qardawi, 2010). It is based on the hadith of Prophet Muhammad PBUH, which is:

“Accept the zakat of the orphans and it will not diminishes the wealth of them” (Al-Majmu’, volume 5: 329 as cited in Qardawi, 2010)

Therefore, Qardawi (2010) eased this discrepancy by stating that the wealth possessed by the children and the insane is subjected to zakat. It is because zakat relates to the possession of wealth. The guardians of these groups should pay the zakat on their behalf. It is to eliminate the disagreement and the guardians are not enforced to repay the zakat in the future (Qardawi, 2010).

There are two types of wealth that are subjected to zakat which are traditional wealth and modern wealth. Traditional wealth is the wealth that had been mentioned in the main source of Shariah and has been practiced during the lifetime of Prophet Muhammad PBUH and his companions. They are agriculture produce, mineral and marine wealth, gold, jewellery and money wealth, trade wealth and livestock wealth. As the current economic practices change, there are broader aspects of wealth that are subjected to zakat. It is used to give greater benefits to public and to uphold justice. Thus, Islamic jurists introduce zakat on the modern wealth like income derived from exploited assets, employment income, financial securities wealth and companies and Islamic financial institutions wealth. Conversely, wealth that is used to meet the basic requirement inclusive of money used to repay debts, is not subject to zakat. All these wealth are subjected to different usage of zakat rates in determining zakat amount (Abu Bakar, 2007; Qardawi, 2010; Zayas, 2003; Saleem, 2007).

Muslims should be aware on the five pre-requisites of the wealth prior to the zakat calculation. The first pre-requisite is the wealth should be in full ownership of the zakat payers. Muslims are not
obligated to pay *zakat* if they do not possess the wealth. The wealth, such as a loan, is not subjected to *zakat*. The second pre-requisite is the wealth must grow. It means that the wealth increase from time to time and it generates profits. Muslims are free from *zakat* if the wealth does not generate any income.

The third pre-requisite is the wealth must exceed the nisab. Nisab is the minimum of wealth that is subjected to *zakat*. If the wealth exceeds certain limits, Muslims are deemed to pay *zakat*. The fourth pre-requisite is the wealth should be more than the necessity. Muslims are deemed to *zakat* calculation when the wealth is over the limit of the necessity. Muslims who are in need are not required to pay *zakat*. The last pre-requisite is the wealth must be in the possession of the *zakat* payer in the specific year period. It means that the wealth must be kept for one-year duration (haul). However, this condition is limited to a certain type of wealth like gold (Qardawi, 2010; Abu Bakar, 2007; Saleem, 2007; Zayas, 2003).

There are eight groups of recipients who are entitled to the *zakah* funds which are the needy, the poor, the *zakah* officer, the revert, the slave, the debtor, the Allahs' cause and the wayfarer (Samad & Glenn, 2010; Abu Bakar, 2007; Qardawi, 2010; Choudhury & Harahap, 2009; Zayas, 2003). The first group of recipients is the poor (*fuqara*). It refers to the person who does not have any means of income or person who do have a source of income but is not enough to meet their daily needs. The second group’s recipient is the needy (*masakin*). They are the ones who have the means of income but are not enough to support their life. If referred to the modern context, these two groups of recipients are the people who are in need for the financial help in order to survive.

The third group of recipients is *zakat* official (*'amilin*). They have been appointed by the Islamic authority to collect and manage the *zakat*. This payment helps to motivate them to administer *zakat* effectively and efficiently. The fourth group of recipient is the new revert (*muallaf*) where it refers to the people who have embraced Islam and are in need of the necessities. It helps to strengthen their faith towards Islam.

The fifth group of recipient is the slaves (*ar-riqab*). It refers to those who have a contract with their master that limits their freedom. Moral recovery centre and drug addicts are considered as the new beneficiaries in the modern concept (Jabatan Audit Negara Malaysia, 2008). The sixth recipient is the debtors (*al-gharimin*). They are the people who are in debt and are unable to repay the debt. However, there are certain conditions in which this group of recipient is allowed to receive the *zakat*. The conditions are the debtors who are in debt in order to resolve the disagreement between two parties, the debtors who repented and are unable to settle the debt and the guarantors who cannot pay the debt on the behalf of the guarantees as well as the guarantees who are also incapable of repaying the debt.
The seventh group of recipient is the fighters of Allah (fisabilillah). They are fighters who fight against injustice toward Muslims. The last recipient is the travelers (ibnusabbil). It refers to the travelers who are stranded for permissible purposes in Islam (Abu Bakar, 2007; Qardawi, 2010; Zayas, 2003; Saleem, 2007). Their portions of one over eight cannot be eliminated in whatever circumstances even if there is no Muslims who belong in that category (Zayas, 2003; Abu Bakar, 2007; Qardawi, 2010).

The above explanation is supported by the Quranic verse Surah Taubah verse 60 which read:

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\text{إِنَّمَا الْصَّدَقَاتُ لِلْفَقَرَاءِ وَالأَعْمَالِ الصَّالِحَةِ وَالْمَسْتَقْلِينَ وَالْعَدُوْنِ يَدَّعُونَهُمُ وَالْمُؤْمِنَّاتِ فَلْوَتْنَاهُمُ وَمِنَ الْمَسَاحِرِ وَالْعَفَّٰفِينَ وَفِي سَبِيلِ اللَّهِ وَأَنَّ الْمُسَبِّبِينَ فِي رَبِّهِمْ}
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\text{مِنْ أَلْلَهِ وَاللَّهُ عَلِيمُ حَكِيمُ}.
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“As-Sadaqat (here it means Zakat) are only for the Fuqara’ (poor), and Al-Masakin (the poor) and those employed to collect (the funds); and for to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah’s Cause (i.e. for Mujahidun - those fighting in the holy wars), and for the wayfarer (a traveller who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise”

(Surah Taubah: 60)

Importance of zakat

Zakat can develop the socio-economy of the nation through its multiplier effect. This is because zakat is a medium to mitigate the wealth polarization among the rich. Zakat money will be circulating in the society regardless of the status of the individual. For example, when the rich practices zakat, they are willing to pay zakat to the poor, then, the poor will be able to utilize the zakat funds. When zakat function as it should be, government can focus on the other agenda like jobs enhancements rather than concentrating too much on the poor (Ab Rahman & Syed Omar, 2010).

Secondly, zakat is one of the safety net in Islam. The distribution of zakat to asnaf prioritizes the needs of the needy and maintains the needs of those who are weak. History proved that zakat is able to eliminate poverty, as portrayed in the story of Caliph Umar Abdul Aziz. There was one time where they could not find any eligible recipients to receive zakat. The story evidenced that the zakat can eliminate poverty, ignorance and disease (Ab Rahman & Syed Omar, 2010). According to
Muhammad Ramzi Umar, 2004 as cited in Ab Rahman & Syed Omar, 2010, Malaysia would not have poverty by 2020 if zakat is well managed.

Thirdly, zakat also ensures social justice especially those who are in need through an efficient and well-structured administration. The efficient and well-structured administration helps in developing the national economic growth. A country will have sufficient income when the well-structured and efficient management is achieved. The officers in zakat institutions should also play a vital role in preaching the benefits and responsibilities of zakat payments (Ab Rahman & Syed Omar, 2010).

**Is the accounting and auditing of zakat institutions a new development?**

The second caliph that is Caliph Umar al Khattab established Diwan that is an office of recording and safekeeping of accounting books. The classification of records and their layouts together with supporting documents are also occupied in Diwan. Then, Diwan was written in Persian and Roman languages, the language of the localities. After that, the Diwan was converted into Arabic language (Zaid, 2000).

The evolution of the accounting records had emerged. During the Umayyad and Abbaside times, there are two offices, which are Diwan al-Kharaj (Department of Land Zakat) and Diwan al Jund (Department of Army Personnel). A person responsible in managing both departments was Khaled Bin Barmak (Zaid, 2000). A tool of eight accounting systems have been practiced in the Islamic states as claimed by Al-Khawarizmy and Al-Mazendarany (Zaid, 2000). The eight accounting systems are stable accounting (accounting for livestock), construction accounting, rice farm accounting (agricultural accounting), warehouse accounting, mint accounting (currency accounting), sheep grazing accounting and treasury accounting (Zaid, 2000; Zaid, 2004) and review of book (auditing) (Zaid, 2000).

There were several journals used by the Islamic state, which are Jaridah Al-Kharaj (zakat journal), Jaridah Annafakat (expenditure journal), Jaridah Al-Mal (funds journal) and Jaridah Al-Musadareen (confiscated journal). Jaridah Al-Kharaj is a book that specialized in zakat, which is similar to the modern accounts receivable subsidiary ledger. It has been well documented with good indexing and pages. It is based on zakat law. Each page of Jaridah Al-Kharaj has two columns; payer’s column and recipient’s column. The jaridah must be registered as the government’s entities and must be sealed with the sultan’s stamp (Zaid, 2000).

The Islamic state has also introduced receipts upon money collection in managing the zakat. Those days, Islamic government’s officers used three types of book, which were Daftar Al-Yawmi‘ah (daily book), Daftar Attawjihat (book of budget or guidance) and Daftar Attahwilat (book of transfer). According to Al-Khwarizmi, Daftar Al-Yawmia’ah refers to “the daily book used to record expenses
and other financial transactions associated with Zakat Al-Kharaj” (Zaid, 2000). It was used to record Al-Kharaj expenses and must be in accordance with the recording standards and the date of the event. The accountant must get the approval in preparing this Daftar from the head of Diwan and the minister or his deputy. Daftar Attawjihat is a book of guidance. It was used to record budget expenses. It was also used to monitor regional expenses and to access the level of compliance on the budget allocations and specifications among the province. Meanwhile, Daftar Attahwilat was a book of transfers. It was used to record any transaction transferred between central government and the wilayah. Each wilayah will get the budget allocations approved by the central government. Budget allocations are based on the zakat collections, payments and transfers from/to the central government. If the transfer was less than the budget, the excess budget will be returned to, the central government where the Daftar Attahwilat was used (Zaid, 2000).

As mentioned in the above, there is an establishment of auditing systems namely book of review. The reviewers are responsible to do the checking in the book. There are several criteria over the appointment of reviewers. Among the criteria to be a reviewer are; eloquent, should memorize Koran, intelligent, wise, trustworthy and just. The bookkeeper needs to follow the regulations and cannot violate the system (Zaid, 2000).

There is greater emphasis on the fundamental of the Islamic principle, which is self-control. Self-control relates to the concept of Ihsan where Muslim believes that Allah knows all his deeds or even in his heart. Thus, it leads to the concept of self-judgment (muhasaba). Self-judgment is a continuous self-evaluations made by individuals before Allah evaluates his deeds. This is a process of reckoning of good and bad deeds through self-evaluation (Zaid, 2000). According to Zaid, (2000), self-control and self-judgment are the principles required by the Shariah. It is a reflection of accountability theory, stewardship theory and agency theory.

a) **Theory of Accountability**

Accountability refers to the obligation to serve the actions for which one held responsible. It refers to the concept of principal agent relationship. It is where an accountee refers to principal to enter into the contract where the accountor (agent) will work on his behalf. He must managed well and abstain from other people’s interruption in managing the accountee’s resources. He must work his fullest effort to meet certain objectives and give absolute information to the accountee (Yaya & Mohd Ibrahim).

In Islam, the concept of accountability can be regarded as the main objectives of Islamic accounting. However, the concept of accountability is different from the above explanation as it involves the element of spirituality. Man is not only accountable to other human being but they are also accountable to Allah. This is because man is considered as vicegerent (Khilafah) of Allah. Allah
mentioned that the earth is a trust (amanah) from Allah to His mankind (Yaya & Mohd Ibrahim) in the Quranic verse, which is:

وَإِلَى فَمُودٍ أَخَاهُمْ صَلِّي اللهُ عَلَّمَ هُمْ مَأْتِيكُمْ أَعْبَدْوا لَهُ مَا لَكُمْ

مُنٍّ إِلَيْهِ غَيْرَهُ هُوَ أَنَا كَمْ مِنْ الأَرْضِ وَأَسْتُعْمَرُ كَمْ فِيهَا فَأَسْتَغْفَرِوهُ

نَأْمَ وَثِبَتْ إِلَيْهِ إِنْ رَبِّي قَرِيبٌ مُجِيبٌ

“And to Thamud (people, We sent) their brother Saleh (Salih). He said: "O my people! Worship Allah, you have no other Ilah (God) but Him. He brought you forth from the earth and settled you therein, then ask forgiveness of Him and turn to Him in repentance. Certainly, my Lord is Near (to all by His Knowledge), Responsive." (Surah Hud verse 61)

Accountability in Islam can be explained through two concepts. The first concept is the accountability as the vicegerent of Allah. The second concept is the contract between the principal and agent, similar to the conventional perspectives. To execute this kind of concept, an agent should do thorough analysis on the effect of the activities toward Islam, social, economic and environmental issues. Based on these assessments, an agent needs to solve the society’s problems. An agent is not allowed to do any harmful activities to other human being, even to other creatures (Yaya & Mohd Ibrahim).

Zakat can also be a tool to the fulfillment of the accountability. It is because zakat helps the organization to shift from wealth orientation to social maximization. Zakat is based on wealth. The higher the wealth, the more the zakat payment, thus, it will increase social contribution. In addition, zakat is a mechanism to comply with Islamic teachings. It is ultimately parallel with man-made laws and regulations. Zakat can also create equilibrium between individual and social. It is where it encourages people to maximize wealth and allocates the wealth in the form of zakat for the social benefits. Moreover, zakat can also ease people from social coercion, economic instability and education purposes. Ultimately, zakat is a means of combining the worldly matters to the hereafter since it create connection between day-to-day operations to the destiny in the hereafter (Yaya & Mohd Ibrahim).

Malaysian public sector organizations have three levels of accountability in the aspect of financial management; managerial accountability, fiscal accountability and programme accountability. Managerial accountability is the concept of the efficient usage of resources and avoidance of wastage. The government’s personnel are answerable towards their use of the public
resources. Fiscal accountability is the concept for avoiding corruption and misleading transactions pertaining to public moneys while program accountability is the concept of effectiveness of the programs in achieving the objectives (Othman, et al., 2007).

Accountability theory comes together with the concept of stewardship (Othman, et al., 2007). Othman, et al., (2007) said that the governments are answerable over the usage of the publics’ resources. Government’s accountability means giving right information and clarifying debatable issues to the public. Figure 1 shows the relationship between stewardship and accountability.

\[ \text{Figure 1: The relationship between stewardship and accountability} \]

\[ \text{Source: Othman, et al., (2007)} \]

\[ b) \text{ Stewardship Theory} \]

Othman, et al. (2007) defined stewardship as “to hold something in trust for another” (p. 26). There are four different areas of stewardship for managers in public sector. The areas are stewardship of people, stewardship of product, stewardship of services, and stewardship of the company. Stewardship of people refers to the concept where people stay focused on the welfare of the society. Stewardship of product concerns over the product delivery whether it is well distributed or produced. Stewardship of services refers to the service delivery whether it is well distributed or produced. Community is prevented from being an inactive witness from just seeing the action of the government is called stewardship of the company. (Othman, et al., 2007).

The four areas of stewardships could be applied in zakat administration. Zakat payers can exercise two areas of stewardships; stewardship of people and company. Stewardship of people is executed when zakat payers believed that zakat could help in giving means to generate income to the poor. Zakat payers also can act as watchdogs to the zakat institutions in improving the zakat management. This kind of action is called the stewardship of the company. Besides, zakat administrators also can exercise the stewardship of products and services. It is where zakat funds are well managed and in accordance with the principle of Shariah. Zakat funds are allocated to the eligible recipients and beneficial programme.
c) **Agency theory**

Stemmed from the contractual theory, agency theory is the relationship between principal and agent. This theory emerged when the principal appoints the agent to conduct the work or action on his behalf. Normally, the principal will delegate the rights to make decisions to the agent. Problems may arise when there is communication barriers and uncertainty between principal and agent. This leads to two agency problems; moral hazard and adverse selection. Moral hazard arises when the principal doubts on the agent’s action, whereas adverse selection occurs when the principal do not know the agent’s actions (Abdul Rahman & Salim, 2010).

This agency theory also applies to the zakat payers and zakat administrators. The zakat payers act as the principal where they appoint the agents i.e. zakat administrators to distribute zakat funds on their behalf. The two agency problems can also occur in the zakat management when the zakat payers doubt or even do not have any knowledge on the zakat administrators’ actions.

**Recommendations and Conclusion**

Zakat could be utilized as a means of avoiding poor Muslims in the society. In ensuring that one of the pillars of Islam is strengthen, the Muslims should be reminded and encouraged to pay Zakat. The benefits are not only in this world, but also in the hereafter. One of the nine strategic challenges of Vision 2020 is to have a caring society. By paying Zakat, the payer would fulfill the obligation, as well as helping to improve the livelihood of the recipients, and inculcate the habits of helping others to create a tolerant society. Zakat is important to the nation since zakat could develop the socio-economy of the nation. Zakat also is one of the safety net in Islam and ensures social justice.

Proper system of recording was established during the reign of Umayyad and Abbaside where journals and *Daftar Al-Yawmi‘ah* (daily book), *Daftar Attawjihat* (book of budget or guidance) and *Daftar Atahwilat* (book of transfer) were maintained. In addition books were reviewed. So the importance of accounting and auditing was realized at that time.

However, there are several pre-requisites of zakat that Muslims need to abide by. These pre-requisites are not merely on the zakat payers but it is inclusive to the wealth that is subjected to the zakat rates and zakat recipients. Consequently, the proper establishments of the accounting, auditing and information technology systems are really needed. Since in the past Islamic history, Muslims has built a perfect system where it achieves the objective of zakat until there is no recipient that is entitled for zakat. In view of that, the government should take serious actions in enhancing the zakat institutions to increase zakat collections and emphasised on accounting and auditing.
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