

# SHARIAH GOVERNANCE and ASSURANCE in Islamic Financial Sectors

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## Chapter 16

# DISCLOSURE OF *SHARIAH* RELATED INFORMATION IN ISLAMIC COOPERATIVES: A CASE STUDY ON *BAITUL MAAL WAT TAMWIL* (BMT)

Rahmawati Mohd Yusoff  
Hamdino Hamdan  
Hairul Azlan Annuar  
Hafiz Majdi Abdul Rashid

## INTRODUCTION

Islamic microfinance (IMFI) arose from the need for Islamic values in the microfinance product, and therefore IMFI has several distinctions that distinguish it from the conventional microfinance. Both conventional microfinance and Islamic microfinance can mobilize external funds and the savings of clients as their source of funding. However, Islamic microfinance can also exploit Islamic charity such as *zakat* and *waqf* as its source of funding. For modes of financing, conventional microfinance can easily adapt interest-based financing, but Islamic microfinance must eliminate interest in its operation. Additionally, Islamic microfinance can also maximize social services by using *zakat* to fulfill basic needs and increase the participation of the poor (Wilson, 2007; Ahmed, 2002).

In Indonesia, microfinance is legally defined as enterprises with net assets less than IDR50 million (land and buildings excluded) or enterprises which have less than IDR300 million total annual sales. According to the definition of small and medium enterprises (SMEs) No.35.2/Per/M.KUKM/X/2007, small firms are enterprises with net assets from IDR 50 million to IDR 500 million (land and buildings excluded) or with total annual sales from IDR300 million to IDR 2.5

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billions, whereas medium-sized firms are those with net assets from IDR 500 million to IDR10 billion (land and buildings excluded) or with total annual sales from IDR2.5 billion to IDR50 billion (Ministry Co-operatives and SMEs, 2013). For conventional microfinance, these institutions are required to prepare annual financial statements in accordance with the *Indonesia Accounting Standards for Non-Publicly Accountable Entities (PSAK ETAP)*. For Islamic microfinance in the country, they are required to prepare annual financial statements based on accounting standards for Islamic institutions (Ministry Cooperative and SMEs, 2007).

*The Statement of Accounting Standards for Islamic Entity* is PSAKs 101-109, and was formulated by the Islamic Financial Accounting Standard Board, and is approved by the National *Shariah* Board Indonesia-Council of *Ulama* (Dewan *Syariah* Nasional-Majelis *Ulama* Indonesia/DSN-MUI). PSAK 101 is the standard for financial statements presentation, and states that the purpose of financial reporting is to provide information through periodic reports, that is useful to investors, creditors and others in making investment decisions. Corporate disclosure is useful for the following purposes such as changing stakeholders' perceptions of the company, increasing the value of a firm and reducing the asymmetry of information and consequently enhancing growth (Lev, 1992).

Many of the Muslim institutions who wish to create microfinance that conforms to Islamic financing principles, however, are facing with a serious lack of guidance on how to establish and implement these principles (Prastowo, 2014). This is because microfinance consumers expect more in terms of protection. Firstly, the operation of business should be transparent; in which the pricing, the pricing terms and conditions of the financial product (including interest charge, insurance premiums and other fees) should be transparent and adequately disclosed in a form understandable to clients (Ratcliffe, 2016). Secondly, information on *Shariah* compliance influences buying decisions among Muslims. Therefore, institutions need to convince customers by enhancing governance and protecting the Islamic identity of Islamic microfinance (Kasim, 2012). Given the Islamic identity of Islamic microfinance, this chapter explores the *Shariah*-Related information (SRI) communicated by BMT in



Indonesia. The chapter proceeds as follows: Section 2 discusses key literature; Section 3 explains the methodology used; Section 4 presents the results; and Section 5 concludes and identifies opportunities for further research.

### ISLAMIC MICROFINANCE ACCOUNTABILITY

Although the theoretical framework for Islamic microfinance has not been well established, (Dixon et al., 2006) the general principle of accountability for Islamic microfinance can be referred to in several Quranic verses such as:

*The believers are but brothers, so make settlement between your brothers. And fear Allah that you may receive mercy.*

(Al-Hujarat 49:10)

The above verse explains that people should be responsible to Allah SWT and to other people. Muslims believe in the accountability to God and community in all activities. Allah SWT declares that people cannot live without caring for others and that all believers are brothers. People must make peace with each other and fear Allah'.

As a strategy for poverty alleviation, Islamic microfinance uses a bottom-up rather than a top-down approach (Dixon et al., 2006). IMFI has been a favoured institutional form for delivering these services. Hence, IMFI is expected to have good governance involving greater transparency and accountability. However, microfinance faces different power bases and resources. In managing the institutions, Islamic microfinance motivation is based on religious motivation and involves public interest. Thus, the management has to ensure that its Islamic microfinance contributes to reducing the social and economic inequalities in society. To do this, clear and transparent reporting is important.

### PREVIOUS STUDIES ON ISLAMIC COOPERATIVE ACCOUNTING AND ACCOUNTING STANDARDS

Among the many researchers who are concerned with Islamic microfinance, few have taken into consideration the importance of accountability of IMFIs in terms of reporting and transparency

(Prastowo, 2015) IMFIs in Indonesia have not been subject to accounting standards of audit and assurance that there is a need for BMTs to inc

IMF investors. In addition, donors need to ensure that IMF reporting, BMT sustainability and transparency

### Overview of

BMT is the community-cooperative (Adnan & Azzam, 2015) mission (tal) Viewed from an alternative perspective, the needs of shareholders and entrepreneurs

BM is established through a procedure (Adnan & Azzam, 2015) examination of the impact on the BMT financial and local economic of illegal m

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(Prastowo, 2014). Wahyuni (2008) examined the accountability of the IMFIs in Indonesia which comprised 101 BMTs from 24 provinces in the country. The study reported that the rapid development of BMT has not been followed by the development of reporting regulation and accounting standards. Most BMT managers did not opt for a process of audit and transparent reporting practices. Wahyuni (2008) suggests that there is a need to enhance the disclosure of financial reporting in BMTs to increase trust from investors and users.

IMFI relies largely on external funding support from donors/investors. In order to commit their funds to an MFI, these funders/donors need to develop trust in IMFIs. To win the trust of funders/donors, IMFIs need to practice transparency in their performance reporting. By increasing focus on trust, IMFI can significantly improve sustainability and social impact (Epstein & Yuthas, 2011). In essence, transparency leads stakeholders to trust IMFIs (Augustine, 2012).

### Overview of BMT in Indonesia

BMT is the biggest IMFIs in Indonesia. BMT is defined as a community-based microfinance institution that operates under the cooperative system and non-governmental organisation domain (Adnan & Ajija, 2015). BMT carries out two missions, namely a social mission (*tabarru*) and a mission to earn profit (*tamwil*) proportionally. Viewed from a financing procedure and outreach perspective, BMT is an alternative financial institution that is highly effective in serving the needs of short-term working capital financing that is needed by micro entrepreneurs.

BMT is registered under the Ministry of Cooperatives and is established through cooperative statutes, which also prescribe procedure for preparation of financial statements. Adnan and Ajija (2015) examined BMTs and concluded that they have a positive impact on society, as the income of members increase after receiving BMT financing. In this case, BMT not only reduces poverty and foster local economic development but also limits the scope and prevalence of illegal money lenders trapping the poor in unsustainable debt.

Significantly, BMT activities in Indonesia have come a long way. Previous studies show that BMT has been well developed by the establishment of two pioneers, namely, *BMT Sleman* in the 1980s



and *BMT Ridho Gusti* in Bandung, West Java. After *Pusat Inkubasi Bisnis Usaha Kecil* (Center for Incubating Small Business (PINBUK)) started promoting Islamic cooperatives under the umbrella of BMT in 1995, the number of BMTs was found to increase tremendously until the end of 2010. This rapid growth of BMTs started in 1995 with a large increase in numbers during the Asian financial crisis of 1997 and 1998. According to the database of the Center for Incubating Small Business (PIBNUK), there are already 3,874 BMTs in the country in 2013 (Ministry of Cooperatives and SMEs, 2013).

BMT offers several products which are quite similar to those offered by Islamic banks in Indonesia. However, the two institutions differ in term of their clients. Middle and upper socioeconomic groups are clients of Islamic banks; by contrast, BMT is dedicated to people who have a low-income level. The three activities of BMT are investment in the real sector, financial intermediation and social intermediation. In terms of the real sector, BMT can invest its funds in long-term business activities such as building a new factory or buying stock from an established firm. It operates as a financial intermediary by mobilizing deposits from member clients and financial commercial ventures. In addition, as social intermediary, BMT is dedicated to performing socio-religious roles by collecting charity donations from Muslims and helping the needy along with their spiritual lives (Adnan & Ajija, 2015).

#### Accounting Standards for IMFIs

Accounting standards for Islamic institutions in Indonesia, were first established in 2002, with the issuing of the Statement of Accounting Standard No.59 (PSAK 59), also known as Islamic Banking Accounting Standard. PSAK 59 was released by Indonesian Institute of Accountant (IAI) on 1 July 2002 and took effect starting 1 January 2003, followed by it being implemented for 5 years until the ending of accounting period which was on 31 December 2007. The standards were derived from the standards released by AAOFI with some modifications to suit local context and needs. PSAK 59 was then replaced in 2008 by new PSAKs, known as the Statement of Accounting Standards for Islamic Business Entities. The new standards consist of PSAK 101-109, and was approved by Islamic Financial Accounting Standard

Board (DSAS) from January

#### RESEARCH

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Board (DSAS) in Indonesia. These standards then became effective from January 2008,

### **RESEARCH OBJECTIVE AND DESIGN**

This study investigates the extent of disclosure of SRI in IMFIs' financial reporting. Wahyuni (2008) points out the call for good governance for the improvement of IMFIs, and suggests conducting a study pertaining to the structure and management of IMFIs. Siswantoro (2008) recommends a study which takes into consideration the accounting practices of all IMFIs in Indonesia, because his research findings on disclosure of SRI among Islamic cooperatives confirm that Islamic cooperatives may not be compliant due to their unclear accountability systems and procedures. Most BMT managers were not opting for audit processes and transparent reporting practices. Given the above considerations and the fact that there are few studies on Islamic microfinance accounting in Indonesia, this present study addresses the following research questions:

*RQ1: What are the accounting standards and reporting systems used by IMFIs in Indonesia?*

*RQ2: What is the extent of SRI communicated in the reports of IMFIs?*

This study observed the reporting of SRI in the annual reports of three BMTs: BMT A ranges from year 2011 until 2013, BMT B ranges from year 2012 until 2013 and BMT C ranges from year 2010 until 2012. These institutions were chosen because they adopt financial reporting practices based on general accounting standards such as PSAK 101-109 and their financial statements are also found to be accessible. The checklist instrument (the disclosure index) consisted of 54 items (shown in Appendix 1).

Financial disclosure does not possess inherent characteristics by which it can be measured directly. It would be difficult to measure the quality of information found in the annual report of any company. Therefore, scoring is one way to quantify disclosure (Cooke & Wallace, 2012). There are two ways to determine the disclosure



level: (1) using a weighted disclosure index (2) using an un-weighted disclosure index. This chapter has chosen the un-weighted disclosure index methodology. The BMTs' annual reports were examined based on several themes in the checklist instrument constructed by the author and was based on a study done by Quayes and Hasan (2014). If a BMT discloses an item in its annual report, then "1" was awarded and if the item was not disclosed '0' was awarded.

The checklist instrument was constructed from three sources of reference which took into account quantitative and qualitative items in the annual reports of IMFIs.

**Table 16.1:** List of Items Identified as SRI

Main Sources of Information	Items Identified as SRI	No. of Items
AAOIFI (2002) Haniffa & Hudaib (2007) Harahap (2003)	▪ Basic information about IMFIs	11
	▪ Non-financial information	5
	▪ Financial information	7
	▪ Employee information	4
	▪ Social responsibility information	12
	▪ Corporate Governance	10
	▪ Product and services	6
	<b>Total</b>	<b>54</b>

This study investigates the actual practices of *Shariah* compliance within the IMFIs and SRI that were communicated in the reports of the Islamic cooperatives and BMTs. The choice of using annual report was justified because they were expected to be potentially influential due to its widespread distribution, accessibility for use by researchers and its usefulness for a wide variety of external stakeholders such as customers, regulators and the public (Haniffa & Hudaib, 2007). The reports of each of the three IMFIs operators were examined and compared with the standards of the Islamic Financial Institutions (PSAK101-109) guidelines on financial statements. The guidelines were useful as they set out the minimum disclosure requirements and provided the format and wording for inclusion in the financial report.

## FINDING

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FINDINGS AND DISCUSSION

Generally, IMFI in Indonesia are not required to comply with any specific Islamic financial disclosure standards as in the case of BMT. However, BMT can still follow PSAK 101-109 to disclose their financial information. Therefore, it finds that the level and extent of disclosure in the BMT annual report places more prominence on general standards and regulatory standards rather than on specific Islamic accounting standards (especially relating to IMFI business and financial activities).

Table 16.2 lists several comparisons between BMT A, BMT B, and BMT C. Based on the requirements of Ministry of Cooperatives Indonesia, if the value of business exceeds IDR1 billion, the Islamic cooperative should conduct an independent audit and produce an audit report. Therefore, while BMT A and B should be audited, only BMT B was audited.



Table 16.2: List of BMT and Their Audited Financial Statement

Operators	Year in Corporation	Ownership	No. of SSB member	Audited/ Unaudited	Total Members	Volume of Business in 2012/2013 (Rp)
BMT A	2007	Members	3	Unaudited	93,346	4,153,110,659
BMT B	1998	Members	2	Audited	128,486	48,806,938,420
BMT C	2005	Members	3	Unaudited	9,315	570,697,242

Table 16.3: Descriptive Statistics of the Disclosure Index

	BMT A			BMT B			BMT C		
Themes	2011	2012	2013	2012	2013	2010	2011	2012	
Basic information	0.58	0.58	0.58	0.58	0.58	0.50	0.50	0.58	
Non-financial Info.	0.20	0.20	0.20	0.20	0.20	0.00	0.00	0.20	
Financial Info.	0.57	0.57	0.57	0.43	0.43	0.29	0.29	0.29	
Employee Info.	0.25	0.25	0.25	0.50	0.50	0.00	0.00	0.00	
Social responsibility	0.33	0.33	0.33	0.08	0.08	0.08	0.08	0.08	
Corporate governance	0.40	0.40	0.40	0.50	0.50	0.40	0.40	0.40	
Product and services	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	
Overall SRI	0.36	0.36	0.36	0.35	0.35	0.21	0.21	0.25	
Mean SRI	0.36			0.35			0.22		

Table the ranking for the highest overall score. In 2010, the whole BMT, the score was 0.00 – 0.58 respectively. Between the three years shown in Appendix A.

Based on the research, it was seen that the disclosure index for BMT C added 36 per cent to the research instrument. In 2010, the score was 0.36 for BMT C, shown in Appendix A. The three year mean shows that there is a disparity between BMT A and BMT C.

This section discusses the SAK ETAP contrast, SAK ETAP is not for Islamic communication and reputation trust. The section discusses the SAK ETAP.

#### Basic Information

Under the basic information, Overall, the selected themes for 2011, BMT entities and micro entities SRI mean



Corporate governance	0.40	0.40	0.40	0.35	0.35	0.35	0.35	0.21	0.21	0.22
Product and services	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Overall SRI	0.36	0.36	0.36	0.35	0.35	0.35	0.35	0.21	0.21	0.25
Mean SRI		0.36								0.22

Table 16.3 presents the results of the overall SRI in BMT and the ranking for the three selected years examined in this study. The highest overall SRI goes to BMT A, followed by BMT B and BMT C. In 2010, the SRI for BMT C ranged from 0.00-0.50, while for the whole BMT, in 2011 and 2012 the range of SRI was 0.00 – 0.58 and 0.00 – 0.58 respectively. Finally, in 2013, the range of SRI was 0.08 – 0.58 respectively. The results suggest variation and inconsistencies between the communicated and the ideal *Shariah* information (as shown in Appendix 1) over the three year period examined.

Based on the three years mean of SRI for each BMT, it can be seen that the range was 0.22 – 0.36. This means that the BMT had up to 36 per cent of the constructs under the seven themes in the ideal SRI research items that were being communicated in their annual reports. BMT C addressed only 22 per cent of the constructs in the research instrument. In other words, in the overall three year mean of SRI of 0.36 for BMT A, there was less discrepancy between the ideal (as shown in Appendix 1) and the communicated SRI than in the overall three year mean SRI of 0.22 for BMT C, hence, suggesting a large disparity between the ideal and communicated SRI. In this case, it shows that even though the business volume of BMT B was higher than BMT A, the disclosure index for BMT A was better than BMT B.

This chapter also found that the audit report of BMT B used SAK ETAP accounting standards to disclose their financial results. In contrast, SAK ETAP should be used for non-Islamic institutions and not for Islamic Institutions. As such, BMT B may need to reassess its communication strategy to enhance the strength of its *Shariah* image and reputation in order to stay competitive and to enhance community trust. The result of this study is further discussed in the following section.

#### Basic Information About BMT

Under the theme of basic information is the BMT's vision and mission. Overall, the three BMTs scored the same result of SRI mean for the selected three years, which is 0.58. Unlike the other BMT, in 2010-2011, BMT C did not communicate any construct regarding micro entities and *Shariah* principles, but in 2013, BMT C did focus on micro entities and *Shariah* compliance in its transaction. Therefore, SRI mean for BMT C in the year 2010 and 2011 was only 0.50.



BMT A and B were found to emphasize commitments to small-entities' transactions and operate within *Shariah* principles, but BMT C did not clearly state this information in its annual report for the years examined. This sends two signals: (1) the management of BMT C knows that its operations are not truly Islamic and (2) the management wants to portray a positive image by not providing information that does not comply with *Shariah*.

In comparison, in terms of current and future direction in serving the needs of the Muslim community and society, BMT A and B have consistently stated their commitment to this aspect. For instance, they stated in their annual report that they had become advisors for Islamic business entities and appoint professionals as partners of "micro, small and medium enterprises" to achieve common prosperity that is in line with the principles of *Shariah*.

Additionally, information about commitment to adhere to *Shariah* law in all aspects of managing the organisation is also required. A transaction or product will generally be treated as being *Shariah*-compliant if a *Shariah* scholar or SSB issues a *fatwa* to confirm that in their opinion, a transaction or product is *Shariah*-compliant. This *fatwa* will cover information on *Shariah* compliance, as well as information on *riba* and *gharar*.

### Non-Financial Information

Commitment to follow *Shariah* principles among BMT appears to be very low for non-financial information theme, with a range of SRI mean between 0.00 – 0.20. BMT C did not clearly state that its BMT management was responsible for proper compliance with *Shariah* principles. BMT A and B in comparison stated that the management was trying to comply with *Shariah* rules, but none of the BMTs disclosed *riba* activities in its quantitative or qualitative terms.

### Financial Information

Disclosure for financial information ranged from 0.29 to 0.57. BMT C did not communicate the amounts of debts written off. In addition, the BMTs did not disclose their debt policy or provide details on the type of lending activities they were engaged in. BMTs A, B, C stated their allowance for doubtful accounts in quantitative terms, but in

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qualitative terms there was no information regarding the method of allowance for doubtful accounts for accounts receivable.

### Employee Information

With respect to the disclosure of employee information, the minimum score for SRI mean was 0.00, which means that at least one BMT did not disclose information for this item. However, the maximum score was 0.50 for BMT B for the year 2012 and 2013, and hence indicate it supporting social justice as stressed. The findings show that BMT C did not state any information related to employee activities and employees' religious rights. Moreover, the religious activities information in the BMT B annual report shows that the BMTs care about their employees' well-being. This information will also enhance BMT's human capital productivity and motivation. However, BMT A gave qualitative information regarding training and the person in charge, but it did not state the amount spent on training. BMT B in contrast, stated qualitative employee information, but there was no information in terms of number of employees and amount of employee training. Hence, the results also indicate that the information given by BMTs lack transparency and full disclosure of SRI.

### Social Responsibility Information

Social responsibility information for the three BMTs ranged from 0.08 to 0.33. A low social responsibility SRI mean indicates that BMTs are unwilling to show social responsibility information towards stakeholders. A further analysis on this theme revealed that only BMT A disclosed detailed information of *zakat*, obligatory for all Muslims. Findings indicate that in terms of SRI, BMTs B and C did not disclose adequate information on *zakat*, *sadaqah*, *infak* and *wakaf* (0.08). One reason for low disclosure could be that these BMTs assume Muslim decision makers did not place pressure on organisations like BMT to disclose such information, though Islamic accountability includes accountability to society. Another reason for such low disclosure could be that the concept of Islamic perspective is absent in SRI of BMT. Therefore, society at large was unable to know how the operations affected their well-being pertaining to interest and unfair trading practices.



### Corporate Governance (CG)

CG disclosure of SRI about BODs, and reports of SSB showed a minimum SRI mean of 0.4 and a maximum SRI mean of 0.5. The results indicate that little information about declarations concerning compliance with *Shariah* principles was reported by all *Shariah*-compliant BMTs. On the point of information about the view of SSB about the necessity of prohibited transactions/activities, most SSB did not report whether they were engaged in such transactions. This is because, reporting such information may affect the declaration of compliance with *Shariah* rules. However, most BMTs did not disclose information related to the board members' qualifications and their remuneration. It is likely that such information may not useful for their users. The BMT that paid *zakat* on behalf of shareholders also did not report their SSB's opinion regarding the validity of *zakat* computation and *zakat* compliance. It seems that these *Shariah*-compliant BMTs were unaware that the social responsibility and transparency commitments were encouraged by Islam.

However, BMT A and BMT B's annual reports were found to provide SSB reports. Unfortunately, the SSB reports on *Shariah* monitoring are in different formats. First, BMT A and BMT B highlights reviews on *Shariah* compliance with regards to the implementation of *akad* on the product during the stipulated year in terms of saving and financing. Second, the BMT A and BMT B reports do not clearly state that SSB is to be responsible for ensuring that the institution is to conduct its business in accordance with the *Shariah* rules. Third, SSB can advise only on matters and issues that were provided in the financial reports, and only with reasonable assurance that the company has not violated any *Shariah* rules.

Unlike the case of BMT A, the SSB report did not conform to the exact wording and format as stated in the accounting standard for Islamic institutions guidelines. Although the report was not documented in verbatim, SSB report was found not to violate the *Shariah* rules and principles. In this case, BMT A mentioned the report but it only acts as a review and not about *Shariah* compliance to *akad*/products. Moreover, it only highlights about of the organisation and management, business of organisation and financial management.

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In general, the disclosure in the SSB report contained a sentence which was intended to confirm compliance. One of the key distinguishing characteristics of Islamic finance is the role played by the *Shariah* scholars (member of SSB). In this case, the *Shariah* scholars play both as advisory and supervisory roles in the Islamic finance institutions. Thus, SSB members are responsible for determining whether or not a particular transaction or product complies with *Shariah* law. Therefore, it is mandatory for IMFI to have more *Shariah* scholars as their SSB. Moreover, the *Shariah* scholars should also have knowledge or qualifications in finance and accounting. This is because, an SSB working on a transaction or reviewing a particular product will typically consist of at least three *Shariah* scholars (Allen & Overy, 2009).

### **Products and Services**

As for disclosure of product and services information, the score for SRI mean was constantly at 0.17. This indicates that there was as incomplete information about the products and services in the identified BMTs. For example, BMT A did not provide any qualitative information about products and services, but BMT B disclosed the amount of transactions based on their product and services. There is however, no explanation regarding the computation of their product and services.

### **CONCLUSION**

The existence of BMTs is to assist in fulfilling the financial needs of small businesses within the dictated religion faith. Hence, this research attempts to assess the strength or degree of SRI based in the variation between the communicated and ideal *Shariah* information (as shown in *Appendix 1*) in BMTs (Haniffa & Hudaib, 2007).

The results indicate that the highest and the lowest three year SRI to be 0.36 (BMT A) and 0.22 (BMT C) respectively. This means that 36 per cent of the constructs in the ideal SRI have been communicated specifically in the case of BMT A, and with only 22 per cent for BMT C. The research found that the index of each BMT varied across the three year period, suggesting that communication is not static and is often minimal. This may be attributed to a lack



of pressure and indifference in attitude from stakeholders as well as the prevailing secretive culture in the region. It also found that the largest incongruences between the communicated and the ideal SRI were under seven themes: basic information about Islamic microfinance, non-financial information, financial information, employee information, social responsibility, CG, and products and services. This finding is surprising because BMTs, having the role as social and economic contributors to micro-entities, are expected to communicate more on these seven themes to reflect accountability for reasons of social justice and ultimately accountability to God. Hence, BMT management needs to reflect on their communication management strategy as well as their image and reputation. Good CG information is vital for BMTs to promote their corporate accountability to society. Unfortunately, BMTs put little effort into communicating their values in congruence between their rhetoric in annual reports and the information actually disclosed. The management of BMTs hence, need to communicate more effectively by giving full disclosure information, as these have important implications for BMT image and reputation as Islamic microfinance operators.

A comparison of financial reporting reports with accounting standards for Islamic Institutions guidelines for Islamic microfinance operators revealed that all, with the exception of one, reflected high conformity. As a result, the three financial reports were not standardized, provided minimum disclosure and were incomplete. The three reports also were found to be wholly driven by the imperative to conform to the rules, especially by relevant guidelines.

In essence, this chapter focused only on communication in BMT annual reports. Future studies may consider other methodological approaches and improved research instruments. For instance, there is a need to explore more on the issue through the use of survey and interview as research tools. The information of *Shariah* compliance is imperative in influencing purchase and investment decisions amongst Muslims, increasing their understanding of their religion, protecting the Islamic identity of Islamic microfinance operators, and improving transparency for strengthening governance. Finally, another limitation that can be addressed in future studies include considering a different number of assessment years as one of the BMTs was only analysed within two years period.

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# APPENDIX 1 – THE DISCLOSURE INDEX INSTRUMENTS

No	Items
<b>A</b>	<b>Basic Information about Islamic Microfinance Institutions</b>
1	Title.
2	Address.
3	Statement of BMT general objective particularly in <i>Shariah</i> principle.
4	Statement of BMT general objective particularly for micro entities.
5	Description of the organisational structure.
6	Code of conduct the deliberation members.
7	General information about BMT.
8	Minutes of meeting.
9	Statement of marketing objectives.
10	Statement of financial objectives.
11	Information on previous year's performance.
12	Financial history or summary of five or more years.
<b>B</b>	<b>Non-Financial Information</b>
1	A clear statement that the management of Islamic microfinance is responsible for proper complying properly with the <i>Shariah</i> rules and principles.
2	Information on <i>riba</i> and <i>gharar</i> : <i>riba</i> (interest activities).
3	Information on amounts of expenses/revenue from <i>riba</i> transactions.
4	Qualitative information on the prohibited transaction and activities.
5	Information amount of profits or losses from the prohibited transactions other than <i>riba</i> /interest.

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*Disclosure of Shariah Related Information in Islamic Cooperatives:  
A Case Study on Baitul Maal Wat Tamwil (BMT)*

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<b>C</b>	<b>Financial Information</b>
1	Profitability ratios.
2	Liquidity ratios.
3	Leverage ratios.
4	Growth rate ratios.
5	Financial summary of three or more years.
6	Qualitative information on debts written off.
7	Quantitative information on debts written off.
<b>D</b>	<b>Employee Information</b>
1	Number of employee information.
2	Amount spent on employee training.
3	Number of employees trained.
4	Information on employee's religious rights; proper place of worship for employee.
<b>E</b>	<b>Social Responsibility Information</b>
1	Sources of <i>zakat</i> .
2	Beneficiaries of <i>zakat</i> .
3	The balance of <i>zakat</i> fund and reasons for non-distribution.
4	Qualitative information on <i>saddaqa</i> /charitable donations.
5	Quantitative of <i>saddaqa</i> /charitable donations.
6	Qualitative information on <i>waqf</i> .
7	Quantitative information on <i>waqf</i> .
8	Late repayments and insolvent clients/bad debts written off.
9	Qualitative information on the contribution towards the society programmes.
10	Amounts of the contribution towards the society programmes.
11	Student employment.
12	Childcare.



F	Corporate Governance
1	Names of directors.
2	Number shares owned by management.
3	Number shares owned by directors.
4	Number shares owned by members.
5	Report of <i>Shariah</i> supervisory board.
6	Names of <i>Shariah</i> supervisory board.
7	Educational qualifications.
8	<i>Shariah</i> supervisory remuneration.
9	The <i>Shariah</i> supervisory board's view about the necessity of prohibited transactions/ activities.
10	The <i>Shariah</i> supervisory board's opinion regarding validity of <i>zakat</i> computation and <i>zakat</i> compliance.
G	Products and Services
1	Qualitative Information of product in annual report.
2	Quantitative information of product in annual report.
3	This concerns the qualitative aspects of products such as green product.
4	<i>Halal</i> status of the product.
5	Product safety (customer protection) and quality.
6	Customers' complaints/incidents if non-compliance with regulation and voluntary codes.

## Chapter 17

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## INTRODUCTIO

*Waqf* is one Islam which aims to acknowledge of relationships between worship has been from the order of that has a dimension *jariyah*). It means will always flow such as providing

*Waqf* in is closely related institutionalised by government since established many do not specifically Law number 15 Principles, PP. number 28 of 1977 about Indonesia that specifies (Anshori, 2006).

Indeed, with of the Islamic methodology that in the Quran clearly hadith explain about matters relating to



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# SHARIAH GOVERNANCE and ASSURANCE in Islamic Financial Sectors

Islamic finance is commonly associated with *Shariah* governance and assurance. The current challenges and issues in the Islamic finance industry have mostly motivated the needs for a more comprehensive and robust *Shariah* governance and assurance. Thus, this book unearths contemporary issues pertaining to *Shariah* governance and assurance. The topics discussed in this book cover various issues in *Shariah* governance and assurance ranging in different sectors such as Islamic banking, Islamic capital market, Islamic social finance and other Islamic Muslim community in the effort to enhance the Islamic finance industry globally, particularly in Islamic banking, *takaful*, Islamic cooperative, Islamic social enterprise and Islamic non-profit organisations. Hence, this book is envisaged to elevate the knowledge of the society in Islamic finance especially on *Shariah* governance and assurance.



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