

HUMAN GOVERNANCE INDEX FOR STATE ISLAMIC RELIGIOUS COUNCILS IN MALAYSIA

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ABSTRACT – State Islamic Religious Council (SIRCs) in Malaysia were established for the social welfare under the purview of state enactments in an Islamic setting. Despite the absence of a profit motive, accountability must be upheld as it is set up to be the guardian of resources so that the trust of stakeholders could be obtained. SIRCs are expected to uphold their ethics and values in their overall operations. However, a number of negative cases of SIRCs were reported in the local media which has tarnished the image of SIRCs. Thus, governors of SIRCs should manage their human assets well. Human governance is the governors' commitment to improving employees' values and ethical behavior in the organization through their leadership, integrity fostered in the organization, training that the governors' attended and internal control that has been put in place. The objective of the study is to examine whether Human Governance Index (HG Index) could be applied to SIRCs. HG Index comprises of 4 components which are (i) BOD Leadership, (ii) Level of Integrity Index, (iii) BOD Quantity of Training Index, and (iv) Quality of Internal Control System Index. Thirteen(13) 2019 annual reports of SIRCs were used as a basis for data collection. This research used content analysis method for analyzing the extent of disclosures for all the items studied under the HG Index. Based on the findings, Quality of Internal control and Level of Integrity were found to be the highest disclosed index. Overall, HG index was found to be low for SIRCs. Thus, governors of SIRCs can use the findings of the study to increase their transparency and accountability to stakeholders by focusing on HG in order to gain the public trust.

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INTRODUCTION

Higher organisational performance can be attained by focusing on governance. In contrast to other types of governance, Human Governance (HG) should be prioritised in management, according to Abdullah et al. (2020), because its implementation is linked to moral behaviour in the workplace. In contrast to corporate governance (CG), which focuses on processes, rules, and other elements, human resource management places a strong emphasis on an intimate connection to employees by instilling high moral standards in their behaviour (Abdullah et al., 2020). HG may lead to relationships that are advantageous to the business. It can be applied as a type of corporate control or to address CG. CG concentrates on external laws created to control how the business conducts its business (Hanapiyah et al., 2016). As a result, HG is required to improve corporate governance in order to avoid failure, particularly in terms of humanity. Additionally, the creation of the HG index is meant to supplement the board governance index that has already been produced by earlier research like the one done by Shaukat and Trojanowski (2018).

Human governance is important not only in profit-making organisations such as public listed companies but also in the public sector such as in State Islamic Religious Council (SIRCs) in Malaysia. SIRCs look after the administration of Islamic religious affairs and also manage Islamic wealth such as *zakat*, *waqf*, *baitulmal* and other Islamic funds. Currently, there are fourteen SIRCs in Malaysia. According to Hafizah et al. (2016), certain research indicates that zakat institutions failed to disclose their obligations regarding the distribution of *zakat* to the *asnaf*. Evidently, diverse zakat management concepts among Malaysian states demonstrate varying degrees of efficiency in zakat fund administration. Every year, several complaints are made against zakat institutions, notably about the way that zakat funds are distributed (Mohd Harzrul, 2010). Furthermore, there are issues regarding the misuse of zakat funds and fraud by amil zakat who was appointed as zakat fund collector by the SIRCs. It can be seen from a study conducted by Hairunnizam et al. (2009), that zakat payers are still not satisfied with the zakat distribution and thus failed to increase the level of trust of zakat payers. Utusan Online (2011) reported that there were cases where amil in Johor have found to breach the trust in zakat funds amounting to RM19,510.

One of the ways to increase trust in SIRCs is through reporting. Daud (2019) discussed the need for Islamic governance in reporting, where transparency is vital. Noorlaila et al. (2013) concluded that overall content as well as the level of disclosure practices of zakat reporting are below satisfactory level and there are variations between the SIRCs' reporting. They also highlighted that disclosure practices are insufficient to demonstrate accountability and transparency.

Accountability and transparency can be improved through reporting of human governance since it is proven that good human governance will lessen the incidences of misbehaviour by people in positions of power (Khan, 2015). Human governance is an important component in all organisations and SIRC's play a crucial role to ensure that public money is well taken care of. One way to demonstrate accountability and transparency of an organization is through reporting human governance.

Haron et al. (2022) developed HG Index to measure human governance. HG Index is based on 4 components, namely (i) Board of Directors (BOD) Leadership; (ii) Level of Integrity; (iii) BOD Quantity of Training; and (iv) Quality of Internal Control System (ICS). Thus, the objective of this paper is to examine the level of HG Index in SIRC's using HG Index developed by Haron et al. (2022)

The following section will discuss the literature review, methodology, findings and discussion of the research.

LITERATURE REVIEW

Agency Theory

Agency theory has been applied to understand the numerous issues of human governance that could be applied in the SIRC's organization. The board of directors or leadership is a critical internal mechanism of Islamic environment and is expected to play two roles (Hillman et al., 2000; Hillman & Dalziel, 2003).

The principle delegated tasks to agents in an agency relation, which is where agency theory originated. When principals and agents have divergent objectives and it is challenging or expensive for the principals to approve of what the agents perform, an agency problem results (Eisenhardt, 1989). Information asymmetries, when the agent has more knowledge and experience than the principal since the latter is directly involved in day-to-day operations, are what induce uncertainty in an agency relationship (Deegan, 2004). In order to reduce agency issues between owner-managers and outside shareholders, this paper suggests that firms adopt monitoring mechanisms through independent board directors or leadership, who act as agents in managing the resources of SIRC's and preparing additional disclosure of information (reporting by SIRC's) (Eng & Mak, 2003). By ensuring that managers act in the interests of outside shareholders, an independent board of directors and the creation of additional reporting act as crucial monitoring mechanisms to lessen the issues associated with the separation of ownership and control in public companies (Ayuso & Argandona, 2009; Hillman et al., 2000).

State Islamic Religious Council (SIRC)

In an Islamic environment, SIRC's were founded in Malaysia under the authority of relevant state laws. State Rulers serve as the chairs of SIRC's. According to Article 74 of the Federal Constitution of Malaysia, which gives every state the ability to interpret Islamic law, they are in charge of any Islamic concerns (Shariah). Indeed, the management and administration of matters related to Muslim wealth derived from religious endowments (waqaf), alms (zakat), and treasury (mal or inheritance) for social welfare are independently conducted by the SIRC's in each state. SIRC's manage Islamic wealth such as zakat, waqf, baitulmal, and other Islamic funds. Currently, there are fourteen SIRC's in Malaysia as shown in Table 1.

Table 1. SIRC's in Malaysia

SIRC No.	State	SIRC
1.	Selangor	Selangor Islamic Religious Council (Majlis Agama Islam Selangor)
2.	Federal Territory	Wilayah Persekutuan Islamic Religious Council (Majlis Agama Islam Wilayah Persekutuan)
3.	Perak	Perak Islamic Religious and Malay Custom Council (Majlis Agama Islam dan Adat Melayu Perak)
4.	Kelantan	Kelantan Islamic Religious and Malay Custom Council (Majlis Agama Islam dan Adat Istiadat Melayu Terengganu)
5.	Terengganu	Terengganu Islamic Religious Council (Majlis Agama Islam dan Adat Melayu Terengganu)
6.	Kedah	Kedah Islamic Religious Council (Majlis Agama Islam Kedah)
7.	Malacca	Malacca Islamic Religious Council (Majlis Agama Islam Melaka)
8.	Johor	Johor Islamic Religious Council (Majlis Agama Islam Johor)
9.	Sabah	Sabah Islamic Religious Council (Majlis Ugama Islam Sabah)
10.	Sarawak	Sarawak Islamic Religious Council (Majlis Islam Sarawak)
11.	Perlis	Perlis Islamic Religious Council (Majlis Agama Islam Perlis)
12.	Negeri Sembilan	Negeri Sembilan Islamic Religious Council (Majlis Agama Islam Negeri Sembilan)
13.	Pahang	Pahang Islamic Religious and Malay Custom Council (Majlis Ugama Islam dan Adat Istiadat Melayu Pahang)
14.	Penang	Penang Islamic Religious Council (Majlis Agama Islam Negeri Pulau Pinang)

Each state is authorised to have the jurisdiction to control the collection of zakat fitrah, baitulmal, or other similar Islamic funds for their SIRC. Each SIRC was founded based on the Federal Constitution States. Due to each SIRC being subject to the administration of its respective state, this results in various functions and jurisdictions of the SIRCS (Rozaidy et al. 2018).

The federal government made various attempts to coordinate and facilitate the aforementioned incoherence and shortcomings in the management of SIRCS notwithstanding the distinction between the federal and state governments in the administration of Islam and its concerns.

Organizationally, Islamic and Muslim organisations' accountability relationships go beyond the usual stakeholders to include a transcendental primary accountability relationship with God (Abu-Tapanjeh, 2009). Since nearly every member of the faculty of SIRC institutions is a Muslim and those institutions are engaging in Islamic activities, they should be recognised as Muslim organisations. Although they support Shari'ah principles, these organisations are governed by the laws and regulations of the Malaysian public sector because they were founded in accordance with Malaysian laws.

Each SIRC institution is recognised as an agent in the sense that it has been designated as the trustee for assets owned by Muslims and is therefore responsible for their administration. Each SIRC institution (an accountant) is required to give an account for the performance (and/or non-performance) of the stewardship of zakat resources in the context of zakat management in Malaysia. The primary documents supporting the accountability relationship between SIRCS and stakeholders, including regulators and oversight agencies, are the financial statements, budget documents, performance reports, and strategic planning frameworks.

Reporting by SIRCS

Transparency and accountability are crucial elements of corporate ethics and are regarded as best practices for good governance. Islam's "taklif" (accountability) doctrine is based on the idea that everyone will be held accountable for their deeds or inactions on the Day of Judgment (Al-Safi, 1992). Islam bases accountability on the two ideas of khilafah (vicegerency) and amanah (trusteeship) (Abdalati, 1998). The concept of khilafah (vicegerency) holds that man is appointed by God as a trustee on this earth and that this requires him to act as a steward in dealing with the universe and its components, whereas the idea of amanah (trusteeship) holds everyone accountable for all their deeds in the hereafter. Humans possess the capacity for reasoning, spiritual aspirations, and action necessary to fulfil their roles as stewards and to exercise trusteeship over all things. In the afterlife, humans must account to God for all of their earthly endeavours (Askary & Clarke 1997).

Therefore, in order to strengthen its responsibility and win the trust of stakeholders, SIRC must reveal the zakat or other Islamic wealth. The goal is to give citizens the ability to demand that SIRC account for any payments made to them in cash or in-kind. In certain instances, large sums of money in Islamic religious taxes were paid by people, yet the host state remained impoverished, and those who lived in the state experienced few if any, concrete advantages. It gives residents of resource-rich governments the ability to confront their SIRCS with challenging questions about where the funds have gone, what it has been used for, and who has profited by exposing Islamic religious revenue sources. This helps to crack down on SIRC mismanagement and corruption and provides a useful catalyst for citizens to understand how the sectors that provide basic needs can genuinely help social and economic development in their state.

There are limited studies that focus on reporting and disclosure in SIRCS. Mohamed et al. (2006) highlighted that on top of the lack of reporting among SIRCS, there is no standardisation of reporting among councils. The differences in reporting and disclosure among Islamic councils are contributed to by differences in state jurisdictions. In terms of waqf reporting, Daud (2019) discussed the need for Islamic governance in waqf reporting, where transparency is vital. Currently, there is no specific framework for waqf governance. Islamic governance can contribute to effective reporting.

According to Talib et al. (2018), the way that *waqf* accounting and reporting are currently handled is inconsistent. Different methods of *waqf* administration, the recognition of *waqf* assets (cash, land, and buildings), measurement or assessment of the *waqf* asset, as well as reporting and presentation have shown inconsistent practices. The Council and Fatwa members of the SIRCS have a strong influence over financial and non-financial decisions pertaining to *waqf* funds at SIRCS. Thus, the influence at the federal level is limited.

Noorlaila et al. (2013) used a self-developed indicator called the Zakat Reporting Practices Disclosure Index to investigate the level of zakat reporting practises disclosure among SIRCS. They found that reporting practises differed between SIRCS, and both the overall content and the standard of disclosure practises were less than sufficient. They came to the conclusion that disclosure practises are insufficient to show transparency and accountability. Furthermore, Sheila Nu Nu and Syed Ahmad (2014) discovered that Malaysia's zakat institutions require regulations, particularly on the disclosure of financial information. The study also highlighted the crucial data included in the reports, as suggested by the respondents, including disclosures on accounting policy, changes to the board of trustees, risk management, a statement of internal control, disclosures on zakat distribution and collection, and a statement of cash flow.

Masruki et al. (2016) examined the SIRCS stakeholders' expectations of information disclosure from the SIRCS annual reports, which contain financial and non-financial information. The findings found that both financial and non-financial information disclosure are important, particularly the external stakeholders. Masruki et al. (2018) concluded from interviews with SIRC's accountants that lack of enforcement is the primary cause of the inconsistency of SIRC's annual report disclosure. The adoption of a best practice reporting system that satisfies the demands of many stakeholders, however, would seem to be a good idea at this point given that the majority of SIRC accountants assert that they are becoming more proactive in the release of yearly reports. Prior research on reporting by SIRCS, *waqfs*, and *zakats*, however, has not examined the organisations' governance.

Human Governance

Arfah and Aizuddin (2010) define human governance as “an internal, inside-out and values-based conviction to guide the human as the sentient being to behave”. Essentially, human governance is principle-based, as opposed to corporate governance which is rule-based.

Corporate scandals and ethical issues in the corporate sector, such as Arthur Anderson, Waste Management, Enron, and WorldCom have highlighted the need for good governance in a business. In Malaysia, a recent case of Serba Dinamik Holding Berhad has brought to light the importance of ethical conduct (Ghani & Che Azmi, 2022). Unethical practices, whether in the public or private organisation will adversely impact the organisation, society, and the nation. Thus, it is vital for organisations to shift their emphasis from profit-oriented to stakeholder-oriented through the engagement of human governance. Human governance will lessen the incidences of misbehaviour by people in positions of power (Khan, 2015). In order to maintain the trust of stakeholders, they must act with positive attitudes that are guided by honesty, fairness, and accountability. Thus, the only way to create these ethical ideals is to create human governance. From another perspective, human governance also can be defined as an internal procedure that serves as a manual for employees' behaviours within a company.

The underlying source of the scandalous and unethical misconduct is the people within the organisation. An organisation's employees and senior management teams, among others, carry out all the organisation's actions. Corporate governance experts have long argued that it is insufficient to protect organisations from long-term harm (Alhabshi, 1998; Iqbal & Lewis, 2009; Khan, 2015; Hilb, 2016). Organisations relied too heavily on corporate governance, which is only effective over a limited period of time because it is unable to encourage the employees' ongoing learning process. These organisations' members only adhere to the established rules and processes, which can eventually result in poor performance (Iqbal & Lewis, 2009; Mahbob et al., 2006). Considering the limitation of corporate governance, human governance seems to benefit the organisation more and may restore the stakeholders' faith in the integrity of organisations.

Human governance is more than what is achievable or perceived by the senses, experience, common sense, and feelings (Zulkefli, Salina, & Taufik, 2016). Human governance is the core principle for professional conduct, and it is suitable and applicable in teaching and management (Lim & Lee, 2016). A holistic human governance approach is vital, while ethical behavior should be part of the factors of implementation and consideration (Arfah & Aizuddin, 2010). The concept of human governance is applicable not only to financial or accounting but also to the whole profession in the working environment. Human governance is directly related to the employee who is a human resource in the organization and who runs the organizational operations, policies, and guidelines. According to Amin (2018), human governance advocates good deeds, where God-fearing men and women walk down the right pathway. The consequence of such human governance is a truthful person free of toxic behaviors and malpractices. It shows that human governance promotes good behavior that should be practised by each employee in the organization (Wan Mohamad Taufik et al. 2020).

HUMAN GOVERNANCE INDEX (HG INDEX)

Previous studies in this area mainly focused on the fundamental concept and understanding of human governance. Recently, Haron et al. (2022) developed the Human Governance Index (HG Index) to measure the level of human governance in a firm. Haron et al. (2022) developed the HG Index which consists of 4 components namely (i) BOD Leadership, (ii) Level of Integrity, (iii) BOD Quantity of Training, and (iv) Quality of ICS. The details of the components of HG Index are shown in Table 2.

Table 2. Human Governance Index (HG Index)

COMPONENTS	DIMENSIONS	ITEMS
BOD LEADERSHIP	1. Job experience Index	
	2. BOD Educational / Background Index	
	3. BOD Educational Level Index	
	4. BOD Age Index	
	5. BOD Gender Diversity Index	
LEVEL OF INTEGRITY	1. Corporate Ethics Value	i. The company has an ethical philosophy and ethical values
	2. Action to promote ethics	i. Disciplinary action against unethical behaviour ii. Ethics Training (Employees) / Education iii. Employee appraisal program to promote ethics
	3. Code of ethics	i. Code of ethics ii. Use both formal and informal methods to communicate code of ethics (Website)
	4. Ethics Committee	i. Ethics Committee

COMPONENTS	DIMENSIONS	ITEMS
		ii. Chief Integrity Officer/ Ethics Officer/Ethics department
	5. Whistleblowing policy	i. Whistleblowing channel/ procedures/ policy ii. Whistleblower Protection
BOD QUANTITY OF TRAINING	1. BOD Quantity of Training	i. Training of all BOD/Supervisory Board (Quantity)
QUALITY OF ICS	1. Content of internal control disclosure	i. Control environment ii. Risk Management iii. Control activities iv. Information and Communication v. Monitoring and Review of Internal Control
	2. Implementation of ICS	i. General Implementation of ICS/committed to maintain ii. Evaluation of the effectiveness of ICS iii. Periodic supervision/provide regular reporting/Board is responsible to review in ongoing manner iv. -Significant weakness v. Internal monitoring / Internal audit vi. External supervision / External audit
	3. Role of ICS	i. Designing ICS ii. Implementing ICS iii. Monitoring ICS iv. Reporting ICS v. Audit ICS
	4. Objective of ICS	i. Objectives related to the reliability of financial statements/reporting ii. Objectives related to the effectiveness and efficiency of operations iii. Objectives related to compliance with laws and regulations
	5. Framework of ICS	i. The ICS framework is as reference in companies, for example, COSO, ERM, ISO and COBIT
	6. A separate section of ICS	i. Conduct ICS disclosures in separate support in the corporate governance section of the company's annual report

Source: Haron et al(2022). Human Governance Index of Manufacturing Sector of Shariah Compliant Companies in Malaysia: A Preliminary Analysis. Vol. 5, Issue 2, pp 283-296

Haron et al. (2022) mainly focused on Shariah public listed companies, which is different from our study. As SIRC is a public government entity, some of the items used to measure HG Index, may not be applicable as the index was used to measure Shariah public listed companies. For example, instead of BOD, SIRC's have Council members to oversee their operations which focus mostly on the collection of zakat and its distribution to the rightful persons. It is also not mandatory for SIRC's to submit their annual report and disclosure requirements are voluntary. This study is the first attempt at exploring the HG index of SIRC's as they are moving towards building a more resourceful human resource. Each of the four components of HG Index will be discussed in the next section.

BOD Leadership

Iqbal and Mirakhor (2004) proposed an Islamic corporate governance model which portrays a governance structure that is to protect the interest and rights of all stakeholders. The model comprises six components which are (i) Shariah rules, (ii) Shariah board, (iii) Shareholders, (iv) Board of Directors (BOD), (v) Management, and (vi) Other stakeholders.

One of the measurements in Haron et al.(2022), is BOD Leadership, which is measured through job experience, educational background, educational level, age, and gender diversity. This measurement is also consistent with the fourth component in Iqbal and Mirakhor's (2004) model.

This study measures BOD who are the governors of SIRC's. In SIRC's, BOD is referred to as the Council members. The Council members play a pertinent role to guide the SIRC in carrying out its tasks. SIRC's Council oversees all the stakeholders including management who has the duty to manage the SIRC and protects the interest of all stakeholders. SIRC Council's main purpose is to ensure SIRC's prosperity by collectively directing SIRC's affairs while meeting the appropriate interests of its stakeholders.

Zakat payers expect the Council to demonstrate competence, effectiveness, and fairness in their relationship with all stakeholders, including zakat beneficiaries (Mustafa, Mohamad, & Adnan, 2013). Therefore, the Council should clearly

understand their role which is a vital component in wealth management, namely, monitoring, service, strategy, and resource provision.

Level of Integrity

Level of Integrity shows the BOD's ethical commitment to promoting ethics in the organization. There has been a limited study done on BOD ethical commitment (Salin et al., 2019; Cuomo et al., 2019). According to Trevio et al. (1998), it is crucial for the BOD and top management of the organisation to support and encourage ethical behaviour in addition to taking disciplinary action against it. This study is in line with the recommendations made by Schwartz et al. (2005), who suggested that directors of a corporation should play a significant role in encouraging ethical conduct because they serve as the company's overall ethical role model. According to Lee and Fargher (2013), the ineffective and improper performance of directors' tasks may have negative effects on a number of stakeholder groups.

Cordeiro (2003) interviewed 14 senior managers from a variety of organizations and found that top management should respond to maintain the ethical norms in an organization and ensure there is no decline in ethics. Creating written codes of ethics, employing and promoting moral people, especially in senior management positions, and creating a thorough system to track actions connected to ethical decision-making are a few of the recommendations presented. As it can be observed, it is challenging to instill an ethical culture at the bottom in a democratic approach, therefore only top management has the potential to create significant changes in company practises (Schroeder, 2002).

This study uses Haron et al. (2022) measurement of the level of integrity using 5 items, namely, (i) having corporate ethics value, (ii) action to promote ethics, (iii) code of ethics, (iv) ethics committee, and (v) whistleblowing policy.

BOD Quantity of Training

According to Abdullah et al. (2020), training and development should improve employees' human value, particularly in terms of integrity, moral behaviour, and ethics. Storey (2002) discovered a positive correlation between training and company performance. This finding was in line with a study by Bowling (2007), who discovered that a productive training and development programme will improve the job proficiency of the company through a motivated worker who places a high value on integrity. Therefore, the more training programmes the BOD attends, the higher the organisation values honesty and work proficiency, and the better the organisation performs.

Consistent with Haron et al. (2022), this study measures BOD training by looking at the number of times the BOD attend training.

Quality of Internal Control System

One of the essential elements for a company to win the public's trust is internal control. A procedure known as an internal control is one that involves the board of directors, management, and other employees of the organisation and is intended to give reasonable assurance regarding the efficiency of operations, the accuracy of financial reporting, and compliance with relevant laws and regulations (COSO, 1994). For the organization's operational and financial goals to be realised, a religious institution must have effective internal control. Internal control at a company must be thorough and encompasses all levels of employees (Deloitte and Touche LLP, 2004).

Haron et al. (2022) measure the internal control system using six dimensions, namely (i) content of internal control disclosure; (ii) implementation of ICS; (iii) role of ICS; (iv) objective of ICS; (v) framework of ICS, and (vi) a separate section of ICS. This measurement is adopted in this study.

RESEARCH METHODOLOGY

Data Collection Method

The study uses data collected from the annual reports of SIRC's for the year 2019 and data that are publicly available on their website. Where the items of the HG index are not disclosed in the annual reports, reference will be made to the respective SIRC's website for the relevant information. The annual reports of 14 SIRC's as shown in Table 1, were used in data collection.

Measurement of HG Index

HG Index was measured using 4 components, namely (i) BOD Leadership, (ii) Level of Integrity, (iii) BOD Quantity of Training, and (iv) Quality of ICS. The details of the components, dimensions, and items are measured as shown in Table 3.

Table 3. Measurement Human Governance Index (HG Index)

(A) BOD LEADERSHIP INDEX				
(5 Dimensions, 5 items)				
1.	Job experience	<i>More than 10 years, 1, Less than 10 years, 0</i>		
2.	BOD Educational Background	<i>Business 1, Non-Business 0</i>		
3.	BOD Educational Level	PhD 4		
		Master 3		
		Professional Certification 2		
		Degree 1		
		Below Degree 0		
4.	BOD Age	> = 60 years 3		
		50 - 59 years 2		
		40 - 49 years 1		
		<= 39 years 0		
5.	BOD Gender Diversity	<i>Female 1, Male 0</i>		
(B) LEVEL OF INTEGRITY INDEX				
(5 Dimensions, 10 items)				
<i>Disclose, 1, Not Disclose, 0</i>				
1.	Corporate Ethics Value	1 item: i. The company has an ethical philosophy and ethical values		
2.	Action to promote ethics	3 items: i. Disciplinary action against unethical behaviour ii. Ethics Training (Employees) / Education iii. Employee appraisal program to promote ethics		
3.	Code of ethics	2 items: i. Code of ethics ii. Use both formal and informal methods to communicate code of ethics (Website)		
4.	Ethics Committee	2 items: i. Ethics Committee ii. Chief Integrity Officer/ Ethics Officer/Ethics department		
5.	Whistleblowing policy	2 items: i. Whistleblowing channel/ procedures/ policy ii. Whistleblower Protection		
<i>Each item is given a score of 1 if it is disclosed, and 0 if otherwise. In total, there are 10 items. Level of integrity index is obtained by dividing the number of disclosed items, by 10, which are the items that should be disclosed.</i>				
(C) BOD QUANTITY OF TRAINING INDEX				
(1 dimension, 1 item)				
<i>More than 5, 1, Less than 5, 0</i>				
(D) QUALITY OF ICS INDEX				
(6 Dimensions, 21 items)				
<i>Disclose, 1, Not Disclose, 0</i>				
1.	Content of internal control disclosure	5 items: i. Control environment ii. Risk Management iii. Control activities iv. Information and Communication v. Monitoring and Review of Internal Control		
		2.	Implementation of ICS	6 items: i. General implementation of ICS ii. Evaluation of the effectiveness of ICS iii. Periodic supervision/provide regular reporting/Board is responsible to review in ongoing manner iv. Significant weakness v. Internal monitoring / Internal audit vi. External supervision / External audit

3.	Role of ICS	5 items: i. Designing ICS ii. Implementing ICS iii. Monitoring ICS iv. Reporting ICS v. Audit ICS
5	Objective of ICS	3 items: i. Objectives related to the reliability of financial statements/reporting ii. Objectives related to the effectiveness and efficiency of operations iii. Objectives related to compliance with laws and regulations
5	Framework of ICS	1 item: i. The ICS framework is as reference in companies, for example, COSO, ERM, ISO and COBIT
6	A separate section of ICS	1 item: i. A separate section of ICS- I item-Conduct ICS disclosures in a separate support in the corporate governance section of the company's annual report
<i>Quality of ICS Index is obtained by dividing the number of disclosed items, divided by 21, which are the items that should be disclosed.</i>		

METHOD OF ANALYSIS

Thirteen(13) 2019 annual reports of SIRC’s were used as a basis for data collection. This research used content analysis method for analyzing the extent of disclosures, especially in the annual reports of the firms. This research used content analysis to analyse the disclosure of all the components listed in the HG Index. Content analysis is an appropriate method to be used to determine the extent of disclosure especially in the annual report (Abeysekera and Guthrie, 2005). Even though the content analysis may use different ways of analysing the disclosure; for example, using word or line count or some may use software searching, this research analysed based on the appearance of statements related to each item studied.

FINDINGS AND DISCUSSION

Only data from 13 SIRC’s were included for further analysis. Penang SIRC was excluded from the study due to the unavailability of data. Table 4 shows the descriptive statistics of HG Index for all organisations in the study.

This research examined the disclosure based on the appearance of any statement provided related to each item in the HG Index. One score will be given for each item disclosed. For example, if the SIRC reported in any segment of the annual report or website stating their ethical philosophy and values, one score is given. In the end, the total score will be calculated once all items have been examined. A higher total score reflects higher disclosure of human governance of the SIRC.

Table 4. Descriptive Statistics of HG Index

Human Governance Index:	N	Minimum	Maximum	Mean
BOD Leadership Index	13	0.000	0.076	0.019
Level of Integrity Index	13	0.000	0.200	0.123
BOD Quantity of Training Index	13	0.000	1.000	0.077
Quality of ICS	13	0.000	0.950	0.144

From Table 4, it can be seen that the reporting of all the items under study range from zero to the highest of 1. A few of SIRC’s have disclosed all information related to BOD Quantity of Training Index and almost all items under Quality of ICS (with mean of 0.144 and 14.4%). The Quality of ICS reported the highest index with a mean of 0.144, followed by Level of Integrity Index with a mean of 0.123. This shows that on average, councils reported 14.4% of information related to their internal control system and 12.3% of information on their level of integrity. The lowest index reported is 0.077 (7.7%) which is for items related to BOD Quantity of Training Index. Meanwhile, the BOD Leadership Index shows a mean of 0.019 which means that, on average, only 1.9% of the BOD are females.

Table 5 shows that the overall HG Index for 13 SIRC's is 0.091 which means that the compatibility of the reporting of all the councils towards the HG Index used in this study is only 9.1%. Table 5 provides details on the reporting under each of the main components for each of the SIRC.

Table 5. HG Index of SIRC's

		BOD Leadership Index	Level of Integrity Index	BOD Quantity of Training Index	Quality of Internal Control System Index	HG Index	RANK HG Index
SIRC 1	Selangor Islamic Religious Council	0.076	0.100	0.000	0.050	0.056	7
SIRC 2	Federal Territory Islamic Religious Council	0.000	0.100	1.000	0.190	0.323	1
SIRC 3	Perak Islamic Religious and Malay Custom Council	0.022	0.100	0.000	0.950	0.268	2
SIRC 4	Kelantan Islamic Religious and Malay Custom Council	0.000	0.200	0.000	0.050	0.063	6
SIRC 5	Terengganu Islamic Religious Council	0.000	0.200	0.000	0.050	0.063	6
SIRC 6	Kedah Islamic Religious Council	0.000	0.200	0.000	0.290	0.123	3
SIRC 7	Malacca Islamic Religious Council	0.014	0.200	0.000	0.050	0.066	5
SIRC 8	Johor Islamic Religious Council	0.024	0.200	0.000	0.000	0.056	7
SIRC 9	Sabah Islamic Religious Council	0.000	0.000	0.000	0.000	0.000	10
SIRC 10	Sarawak Islamic Religious Council	0.028	0.000	0.000	0.240	0.067	7
SIRC 11	Perlis Islamic Religious Council	0.034	0.000	0.000	0.000	0.009	9
SIRC 12	Negeri Sembilan Islamic Religious and Malay Custom Council	0.026	0.100	0.000	0.000	0.032	8
SIRC 13	Pahang Islamic Religious and Malay Custom Council	0.024	0.200	0.000	0.000	0.056	7
MEAN						0.091	

Table 5 shows that the highest HG index is 0.323 by SIRC 2 (Federal Territory Islamic Religious Council) and the lowest HG index is 0.000 by SIRC 9 (Sabah Islamic Religious Council). Almost half of the SIRC's reported 20% information on their integrity level which includes the items on the company's ethical philosophy and values, ethics training, ethics committee, and whistleblowing policy. Majority SIRC's did not disclose any information on BOD's training and development. Meanwhile, there were five councils that did not report any information in regard to their internal control system, while the rest reported around 5% to 95% of items in this component. It can be concluded that overall, the disclosure for all components under HG Index is poor among religious councils in Malaysia.

It can be seen that HG index is highest for SIRC 2 (Federal Territory Islamic Religious Council) at 32.3%, followed by SIRC 3 (Perak Islamic Religious and Malay Customs Council) at 26.8% and SIRC 6 (Kedah Islamic Religious Council) with 12.3%. The lowest is SIRC 9 (Sabah Islamic Religious Council) with 0%, followed by SIRC 11 (Perlis Islamic Religious Council) with 0.8% and SIRC 12 (Negeri Sembilan Islamic Religious and Malay Customs Council) with 3.2%. It can be observed that there are differences in the scores of each SIRC's, which might relate to the non-standardisation of reporting among councils. In addition to the lack of reporting among SIRC's, the different state jurisdictions are a factor in the variations in reporting and disclosure practises among Islamic councils, which was also highlighted by Mohamed et al. (2006).

Based on the findings, this study concludes that the disclosure of SIRC's is still at a low level, consistent with the findings of Mohamed et al. (2006). Sheila Nu Nu and Syed Ahmad (2014) highlight important information for Islamic

institutions, such as information related to the board of trustees, risk management, and a statement of internal control. However, based on the 2019 annual report, this study finds that the disclosure of BOD and the quality of internal control system are still at a low level.

CONCLUSION

As SIRC's were founded under the authority of the relevant state laws, the management and administration of matters related to Muslim wealth derived from *zakat*, *waqaf*, *baitulmal*, and other Islamic funds are independently conducted by the SIRC's in each State. Due to each SIRC being subject to the administration of its respective State, it has resulted in variations to the functions and jurisdiction of the SIRC's. As reported by Talib et al. (2018), there are inconsistencies in reporting and disclosure practices among SIRC's in the methods of waqf administration, the recognition and assessment of the waqf asset, as well as reporting and presentation. They concluded that the disclosure practices are insufficient to show transparency and accountability.

Human governance is introduced in this study as it is directly related to the employee who is a human resource in the organization who runs the organizational operations, policies, and guidelines. According to Wan Mohamad et al. (2020), human governance promotes good behaviour that should be practised by each employee in the organization. In the context of this study, human governance is the SIRC's Board of Governors' commitment to improving employees' values and ethical behaviour in the organization through their leadership, integrity fostered in the organization, training that the Governors attended and internal control that has been put in place.

The main objective of this study is to examine whether HG Index developed by Haron et al. (2022) could be applied to SIRC's in assessing their level of integrity and accountability in managing Islamic wealth such as *zakat*, *waqf*, *baitulmal*, and other Islamic funds. HG index is used to raise the good value in terms of attitude, behavior, ethics, and moral conduct among employees. The effort will help the organization to reduce the risk that will lead to negative activities, misconduct, and organizational decision-making. Employees with good leadership values, high integrity, and great religion and spirit will have a positive effect on the organization.

Based on the 2019 annual reports and websites of 13 SIRC's, the research findings show that not all components and items of HG Index were disclosed by SIRC's. The statistics show that very few SIRC's disclosed all information, and with an overall HG Index of 0.091 for 13 SIRC's, it indicates that the compatibility of the reporting of all the Councils towards HG Index is only 9.1%. This result warrants the BOD who are agents of SIRC's, in managing their resources and preparation of additional disclosure of information should be more accountable and transparent in disclosing human governance practices of SIRC's to reduce agency problems between SIRC's and the stakeholders.

Even though it was reported that notwithstanding the distinction between the federal and state government in the administration of Islam and its concerns, the federal government has made various attempts to coordinate and facilitate the shortcomings in the management of SIRC's. It is very critical for the federal government to standardize the reporting and disclosure requirements and make it mandatory for all SIRC's to comply, and penalties should be imposed for non-compliance. SIRC's should make their annual reports publicly available to increase transparency and accountability to stakeholders.

LIMITATIONS OF STUDY AND IMPLICATIONS FOR FUTURE RESEARCH

Since it is not mandatory for SIRC's to submit their annual report and disclosure requirements are voluntary, it is evident from the above study that very few SIRC's practice good governance. As HG Index focused on the aspects of human governance, future studies should consider incorporating elements of public sector governance to discourse the human governance deficiencies in SIRC's. Future research can integrate HG Index with the Public Sector Governance (PSG) Index developed by previous researchers which includes the core principles of good governance that demonstrate accountability, stewardship, and transparency. Using HG Index and PSG Index in evaluating the level of good governance in SIRC's will provide greater insight into the urgent need for information management which is critical in meeting its objectives and accountabilities for the public interest.

The public sector benefits from effective governance because it encourages sound decision-making, ensures the effective use of resources, strengthens accountability for the stewardship of those resources, ensures the improvement of public sector performance and combats any corruption, improves service delivery, and helps organisations perform better.

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CONFLICT OF INTEREST

The author(s), as noted, certify that they have NO affiliations with or involvement in any organisation or agency with any financial interest (such as honoraria; educational grants; participation in speakers' bureaus; membership, jobs, consultancies, stock ownership, or other equity interest; and expert testimony or patent-licensing arrangements), or non-financial interest (such as personal or professional relationships, affiliations, expertise or beliefs) in the subject matter or materials addressed in this manuscript.

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