THE FORMULATION OF FINANCIAL, GOVERNANCE AND SOCIAL INDEX OF MALAYSIAN ISLAMIC BANKS: AN INTEGRATIVE APPROACH

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Abstract

The study proposes and discusses the development of an index of Islamic Financial and Social Reporting (IFSR) for Islamic banks. The index of IFSR is carefully developed based on the relevant and applicable standards, guidelines and literature from an Islamic perspective such as the Malaysian Accounting Standards Board (MASB), Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), Bank Negara Malaysia (BNM) and Islamic social reporting literature. The index is developed in three parts, namely, financial, social, and auditing and governance. The items within the finance section are developed to ensure that the Islamic banks disclose relevant financial information. The items for the social part aim to ensure that the Islamic banks provide the relevant information regarding social and environment. The items within the auditing and governance part are developed to ensure that the Islamic banks provide relevant information regarding the monitoring and supervising activities that the Islamic banks have undertaken. The IFSR index may be lacking in terms of its usage generalisability as it is specifically developed for IFIs. The developed index of IFSR aims to promote a more appropriate level of disclosure among the Islamic banks. The need for the index is motivated by the growing importance of Islamic banks, not only from the economic perspective but also from the social perspective.

Keywords: Islamic financial and social reporting, Index, Disclosure, Accountability, Stakeholders and Islamic Banks

1. INTRODUCTION

The growing importance of the Islamic banking industry reflects the need to understand issues pertaining to the financial and social reporting disclosure. For instance, by 2014, Ernst & Young, through the World Islamic Banking Competitiveness Report 2013, projected that the Islamic banking assets would grow beyond the milestone of 2 trillion dollars. Locally, in Malaysia, the total Islamic banking assets were reported to have grown to 20.6% to RM469.5 billion as at the end of July 2012 (Economic Report of Malaysia 2012/2013).

As such, it is vital to address the issues concerning corporate financial reporting due to its effects on stakeholders. This is particularly important because of the information asymmetry problems as well as the agency conflicts that exist between the management of the corporations and the stakeholders (Healy and Palepu, 2001). Hence, corporate financial reporting is viewed as a tool that bridges corporations and users of corporate financial information.

Corporate financial reporting denotes the disclosure of both financial and non-financial information (Gibbin et al., 1990). The information can be in the form of quantitative or qualitative, mandatory or voluntary, and released through formal or informal channels. In this context, financial information is considered to be quantitative or mandatory whereas the non-financial information, which also includes the social reporting elements or components, is regarded as qualitative or voluntary.

From the perspective of Islamic banks or within the context of Islamic teaching, the issues of mandatory and voluntary disclosure are considered to be of equal importance. This is because Islamic banks are not only established to maximize the wealth of their owners but also exist to ensure that the welfare of the society is enhanced (Haniffa and Hudaib, 2007).

This kind of reporting requirement is also perceived as being necessary to ensure that the firms, e.g. the Islamic banks, are moving towards achieving the overall aims (maqasid) of Shari'ah. According to Ahmed (2011), the overall maqasid of Shari'ah is to promote welfare as well as to prevent harm among humankind. At this juncture, the financial aspects of reporting represent the mandatory part whereas the social reporting requirements signify the voluntary part.

In addition, the requirements of mandatory reporting within the context of developing economies is deemed relevant because of their more relaxed or less stringent enforcement policies (Ali et al., 2004). Meanwhile, the issue concerning voluntary disclosure, i.e. social reporting, needs to be addressed due to the spirit of the establishment of the Islamic banks themselves (Haniffa, 2002).

Therefore, the requirements pertaining to the issues of financial (mandatory) and social (voluntary) disclosure will provide the findings or insights concerning the overall reporting practices at Islamic banks. From this viewpoint, the development and use of a disclosure index of Islamic financial and social reporting, which takes into account all relevant Islamic financial reporting standards or guidelines and Islamic social reporting literature, is perceived as being necessary to measure the level of financial and social reporting in Islamic banks.

From another perspective, it is anticipated that the disclosure index will improve the overall disclosure aspects as well as acknowledge the existence of all relevant Islamic financial reporting standards or guidelines, and Islamic social reporting literature within the context of Islamic banks. From this viewpoint, it is considered that the disclosure index of Islamic financial and social reporting will enhance or improve disclosure.

As noted by Lambert et al. (2007), improved disclosure is seen to be central since it can mitigate or alleviate the issues of information asymmetry as well as the agency conflicts that arise between the management and the stakeholders. This is because enhanced or improved disclosure considers all relevant existing disclosure requirements concerning organisations.

It is therefore the objective of the study to develop an index of Islamic financial and social reporting, which aims to improve the overall disclosure of Islamic banks in Malaysia. The next section discusses the concept of Islamic financial and social reporting. Thereafter, discussion on the stakeholder theory is provided, followed by the discussion on the stakeholder theory and the IFSR. Before presenting the conclusion, the paper discusses the development of the IFSR Index. The study ends with the conclusion.

2. CONCEPTS OF ISLAMIC FINANCIAL AND SOCIAL REPORTING (IFSR)

Financial reporting from an Islamic perspective concerns the responsibility and accountability of the corporate management towards the maslahah of the ummah (Haniffa and Hudaib, 2007). From this point of view, the key agenda is to provide all relevant and related parties with the necessary financial information that can assist them to achieve their objectives. In the context of corporations, although the priority may reside with the owners or creditors, this does not mean that the other stakeholders' interests should be ignored.

The existing standard and guideline setters in the field of Islamic financial reporting – Malaysian Accounting Standards Board (MASB), Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB) and Bank Negara Malaysia (BNM) – have developed relevant standards and guidelines for corporations, especially the IFIs.

The relevant requirements from each of the standards are considered necessary in order to measure the level of financial reporting of the IFIs. The MASB Technical Release i-3 is deemed to be essential since it covers the practice of IFIs presentation of financial statements in the Malaysian context. The MASB asserts that the absence of specific accounting guidelines for Islamic banks and IFIs has raised several serious concerns.

The Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i) is another reporting requirement for Islamic banks in Malaysia. The GP8-i was issued by BNM with the aim of providing the basis for the presentation and disclosure of financial statements and reports for Islamic banks. Here, the presentation and disclosure are the result of the banking and finance activities of the Islamic banks.

Meanwhile, the AAOIFI and IFSB requirements, which cater for the global needs of financial accounting and reporting, also include guidelines on proper corporate governance practices. The aim of the AAOIFI, which was established within the last two decades, is to enhance the confidence of users of the financial statements of Islamic financial institutions concerning the information that is produced by these institutions.

The IFSB is an international body based in Malaysia, which was established in 2002. It is considered to be one of the main supervisory bodies, together with the SSB, within the milieu of Islamic finance (Alexakis and Tsikouras, 2009). In December 2006, to enhance the corporate governance system, particularly for institutions offering Islamic financial services (IIFS), the IFSB issued guiding principles concerning corporate governance for institutions offering only Islamic financial services.

The development of the relevant and necessary requirements from the MASB, AAOIFI, IFSB and BNM will provide more comprehensive requirements that can be specifically designed to address the relevant IFSR practices of IFIs. This can also be perceived to be an effort to ensure that the management of IFIs take care of their various stakeholders' needs or objectives.

The Islamic social reporting that exists today has been developed according to the Shari'ah framework, which addresses three dimensions that are generally interrelated. These three dimensions are:

- as the primary objective in establishing socio-economic justice we have to seek God's pleasure as the primary objective,
- realizing the benefits to the community. For instance, fulfilling the obligations to the society, and
- pursuing wealth, for instance, to fulfil one's own needs; the fulfilment of these three dimensions forms part of the act of worship.

According to Haniffa (2002), there are two objectives of ISR, namely, (a) to demonstrate accountability to God and the community and (b) to enhance the transparency of business activities by providing relevant information in conformance with the spiritual needs of Muslim decision-makers. Hence, the ISR lies in social relations, which need to be addressed through accountability, social justice and ownership (Maali et al., 2006).

In Islam, the concept of tawhid presents a dissimilar and wider concept of accountability than the one implied in the conventional world (Baydoun and Willet, 2000). This notion is also the basis for Islamic social justice for which Islam has outlined the economic growth that leads to a more impartial allocation of power and prosperity (Sulaiman andWillet, 2001).

The concept of ownership is also central to the concept of accountability in Islam as Muslims believe that they are only the trustees for the wealth they possess (Lewis, 2006), and, thus, they will be accountable to Allah in the hereafter for all their deeds in this world, as stated in the Quran (2:284):

To Allah belongeth all that is in heavens and on earth. Whether ye show what is in your minds or conceal it, Allah calleth you to account for it.

There are seven ethical statements underlying the objectives of demonstrating accountability, and five ethical principles with respect to the transparency objectives for ISR (Haniffa, 2002). The seven ethical statements for accountability objectives are:

- to strive to provide excellent lawful products/service as a trustee of God (amanah),
- to fulfil obligations to God (haqoqullah) and society (haqoqulabad),
- to create reasonable profits in conformance with Islamic principles,
- to attain the objectives of the business venture,
- to be just with employees and communities,
- to ensure that business activities are ecologically sustainable, and
- to recognize work as a form of worship.

In addition, the five ethical principles pertaining to the transparency objectives of ISR are acknowledged as follows:

- to provide information regarding all lawful and unlawful activities undertaken,
- to provide relevant information regarding financing and investment policy,
- to provide relevant information regarding employee policy,
- to provide relevant information regarding the relationship with communities, and
- to provide relevant information regarding the use of resources and protection of the environment.

In terms of disclosure, the Islamic corporate responsibility report can be classified into five themes:(a) finance and investment, (b) product, (c) employees, (d) community, and (e) the environment (Haniffa, 2002). Although the categories appear similar to the conventional social reporting practices, the differences can be observed through the kinds of information disclosed and their emphasis, as they are grounded on the Islamic ethical principles.

3. STAKEHOLDER THEORY

The term stakeholder is used to denote those groups without whose existence and support corporations would cease to survive. It is defined as:

…any group or individual who can affect or is affected by the achievement of an organization's objectives (Freeman, 1984: 46) …

Freeman (1994) asserts that the stakeholder theory has two important explanations concerning the acts of corporations towards their stakeholders. First, it makes and allows corporations to move forward and aim for outstanding achievements, since it provides the managers with a lucid and shared sense of the value that they have created as well as brings the core stakeholders together.

In addition, the stakeholder theory helps the managers to describe their responsibilities to the corporate stakeholders. Hence, the management needs to detail how they want to carry out the business and to be clear concerning what type of relationship they want to formulate and develop with their stakeholders in performing their duties.

As noted by Simmons (2004), the stakeholder theory offers organizations an avenue to identify and bring together diverse stakeholder interest. This is achieved through the recognition of organizational obligations to broader and more ethically concerned constituencies.

The stakeholder theory generally argues that all stakeholders have a right to participate in the corporate decisions that affect them. The theory also mentions that managers have a fiduciary duty to protect and serve the interests of all stakeholder groups. In addition, the stakeholder theory states that the objective of the firm ought to be the promotion of the interests of all the related parties and not only the shareholders.

Therefore, the stakeholder theory actually concerns the managerial conception about the strategy and ethical value of the organizations. At this juncture, the success of organizations depends upon their ability to establish, develop as well as manage their connection with an array of stakeholder groups. The managers have a duty to maintain all the support needed while simultaneously balancing the stakeholders' interests.

The proposed IFSR is perceived to be an avenue that can be used by organizations, i.e. Islamic banks, to create a rapport and develop confidence with their stakeholders. This is because the items of disclosure, as required under the IFSR, cater for the information concerning the financial and social needs of not only the owner or shareholders but also the other stakeholders.

4. STAKEHOLDER THEORY AND IFSR

The stakeholder theory is appropriate for use in this research because the theory takes the view that corporations truly believe that their accountability is to a broader and larger group of stakeholders. At this point, the companies are perceived as recognizing and accepting their responsibilities through voluntarily execution and disclosing the performance to all their related stakeholders.

This has overcome the innate limitation in the agency cost and institutional theories. As noted by Davies *et al.* (1997), the agency perspective, e.g. the principal agent interactions, has a limited scope in explaining the sociological and psychological mechanisms. As such, the stakeholder theory is considered to be appropriate to elucidate more concerning the act of management towards the people or public at large.

The stakeholder theory generally concerns the well-being of corporate stakeholders at large – owners or shareholders, creditors, investors, potential investors, customers, employees, governments and communities (Freeman, 1983). The theory asserts that without the existence and support of the stakeholders, corporations will cease to operate (Freeman, 1984). As such, if it was not for the stakeholders, the term corporation might never have existed.

From this perspective, the stakeholder theory suggests that through their management corporations are in the position or have the duty to bring success to the companies and stakeholders. The reason for this is that corporate survival and existence are perceived to be determined by their progress and success. In addition, the management will always attempt to perform at their very best to ensure continuous corporate success.

The well known avenue for the relationship between corporations and stakeholders is through corporate financial reporting. At this juncture, corporate financial reporting is considered to be a bridge that unites corporations with their stakeholders. In this case, a good connection will certainly be due to the result of a good financial reporting system. The good financial reporting practices should be able to satisfy the needs of stakeholders. To achieve good financial disclosure, companies should ensure that they have adequate financial disclosure.

Sufficient disclosure assists stakeholders in measuring and understanding corporate performance. In addition, stakeholders need the information presented and disclosed in the financial statements to evaluate whether or not their respective goals or objectives have been fulfilled. This task is certainly not easily carried out, which could be one of the reasons for the emergence of corporate social reporting (CSR), as it attempts to satisfy the needs of various stakeholders.

For CSR, the emphasis of reporting is given to all groups of stakeholders. This is dissimilar to the conventional type of reporting system in which the priority of reporting is tailored more towards the owners or shareholders. The approach of CSR provides stakeholders with a better opportunity to comprehend the way the corporate management uses the resources entrusted to them. CSR is also perceived to be a kind of reporting that gives equal priority to reporting to corporate stakeholders.

In contrast, the Islamic perspective of social reporting (ISR) is about fulfilling the corporate responsibility towards the *ummah* at large (Haniffa, 2002). The ISR encompasses the Islamic components within its reporting process to accommodate the needs of Muslim stakeholders, particularly in the case of Islamic financial institutions. In contrast, the concept of IFSR introduced in the present research expands the concept of ISR by giving more emphasis to financial issues or matters while improving the elements of social reporting.

In this context, the stakeholder theory suggests that it could be one of the ways undertaken by corporate management to enable them to share the value that they have created and applied throughout the years. Such disclosure denotes the reflection of the management towards their existing stakeholders since it touches a number of aspects from the perspective of corporate management, supervision and performance. These aspects of discharged accountabilities are translated in the form of IFSR.

Corporations that share the relevant and needed information are able to make the stakeholders feel appreciated as the management have provided a transparent explanation and expression about what they have been doing for their corporations in the annual reports. As further suggested by the stakeholder theory, management have to continue convincing the stakeholders about the approaches that they have taken or chosen in handling corporate resources, which is achievable through good corporate reporting practices. This can also be seen as developing confidence among the stakeholders concerning the capability and accountability of the corporate management.

The stakeholder theory also explains the motivation for IFIs towards IFSR, since such reporting can bring together the needs of all stakeholders. The theory touches on the necessary efforts undertaken by corporations to supply and provide their stakeholders with relevant and comprehensive information that encompasses the components of finance and social as per the requirements of IFSR. The information required by the IFSR provides the opportunity to stakeholders to measure the level of reporting of the respective IFIs.

Moreover, the stakeholder theory supports the argument that corporations will attempt to satisfy a variety of objectives of the stakeholder by using the IFSR as an arbitrator. From another perspective, through IFSR, corporate management is seen as combining the different types of need of their stakeholders in a single report. Diverse stakeholders may perceive this as a good avenue to discharge the accountability since the report caters to the needs of all the stakeholders.

Additionally, the stakeholder theory in the sphere of IFIs recommends that corporations with the IFSR kind of reporting are able to provide an indication to their stakeholders that they are being more detailed and specific about their disclosure since the IFSR focuses or requires details concerning financial matters in addition to the social components. This acts as a sign to their stakeholders about how important they are in the eyes of corporate management.

The stakeholder theory also elucidates that those corporations that comply with the items of reporting required by the IFSR aim to develop a strong and lasting relationship with their stakeholders. A strong bond between corporations and stakeholders will pave the way to a long lasting relationship. From this perspective, the theory states that corporations need to build trust among their stakeholders so that they can provide support for corporate operations and activities.

The theory from this standpoint notes the need for corporate management to embark on IFSR in an effort to establish the grounds for a relationship between the corporations and the stakeholders. There will be a mutual relationship in which corporations begin the process through IFSR while stakeholders will respond and provide support to the corporations. As suggested by the stakeholder theory, this is a continuous process that is needed by corporations to survive in the business world.

5. DEVELOPING THE IFSR INDEX

The concept of IFSR generally lies in the blend of reporting requirements from the Islamic financial and social perspectives. Although the existing ISR concept does include the financial components within its reporting system, it is not as comprehensive as the social components. Arising from this point, the IFSR was developed to give more emphasis to the financial aspects of reporting while at the same time retaining the core components of social reporting. The IFSR index was carefully developed to ensure its validity and reliability (Hassan and Harahap, 2010; Haniffa and Hudaib, 2007).

The Islamic financial components, i.e. finance, accounting and investment, in the IFSR are fundamentally developed based on the technical and practical approaches from the relevant existing standard and guidelines setters, i.e. MASB, AAOIFI, IFSB and BNM. The items within this section are carefully developed with the aim to ensure that the Islamic banks disclose relevant information as required by the above standards and guidelines. In addition, the items are also carefully developed to ensure that the Islamic banks provide all lawful and unlawful activities undertaken as well as to provide relevant information regarding financing and investment policy (Haniffa, 2002).

In contrast, the ISR concept has essentially arisen from the theoretical perspective, and, hence, the technical and practical approaches that are used in developing the IFSR will broaden and deepen the implications of the IFSR concept within its context of usage.

Mashhour (1996) asserts that it is crucial for social reporting to be practiced by IFIs since they are regarded as having a social face. From this standpoint, their establishment is considered to benefit the society at large. Furthermore, the social issues that the IFIs deal with have a significant role in society since the main portion of their operations and activities mirror the Islamic principles (Maali *et al.*, 2006).

Here, the list of items for the social part in the index of IFSR are developed to ensure that the Islamic banks provide the relevant information regarding employee policy, to provide relevant information regarding the relationship with the community, and to provide relevant information regarding the use of resources and protection of the environment (See Haniffa, 2002).

In addition, the items within the auditing and governance part are carefully developed to ensure that the Islamic banks provide relevant information regarding the monitoring and supervising activities that the Islamic banks have undertaken. The items are also viewed as necessary to ensure that the Islamic banks move towards protecting the interests of their stakeholders. The complete or final index items for Islamic banks and their bases of reference are presented in Table 1 below.

Table 1. Index of IFSR for Islamic banks in Malaysia

No.	***Items of reporting***	*Basis of Reference*
	Finance, accounting and investment	
1.	Reports shall comprise the following: i. Performance overview; ii. Statement of corporate governance; iii. Directors' report; iv. Statement by directors; v. Statutory declaration by director or person responsible for preparation of financial statements of Islamic banks; vi. Auditor's report; and vii. Shari'ah committee's report.	GP8-i BNM
2.	Financial statement shall comprise the following: i. Balance sheet; ii. Income statement; iii. Statement of changes in equity showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distribution to owners; iv. Cash flow statement; and v. Accounting policies and explanatory notes.	GP8-i BNM
3.	Statement of financial position of an IFI shall disclose the following: i. Assets; ii. Liabilities; and iii. Equity.	Tri-3 MASB; GP8-i BNM
4.	Separate reporting on IFI's assets, liabilities and equity in the notes.	Tri-3 MASB; GP8-i BNM
5.	Income analysis is reported based on types of investment and financing of customers.	Tri-3 MASB; GP8-i BNM
6.	Presentation of dividends recognised: i. Disclosed either in statement of changes in equity or in the notes; ii. Amount distributed to owners during the period; and iii. Related amount per share.	Tri-3 MASB; GP8-i BNM
7.	*Zakat* obligations: i. Method; ii. Amount and beneficiaries; and iii. Payment on behalf of depositors, shareholders and others.	Maali et al. (2006); GP8-i BNM Haniffa (2002); GP8-i BNM Tri-3 MASB; GP8-i BNM
8.	Policy on late repayments and insolvent clients/bad debt written off.	Maali et al. (2006)
9.	Disclosure of non-allowable earnings or expenditure prohibited by Shari'ah: i. Amount of earnings realised; ii. Nature of earnings realised; iii. Amount of expenses; iv. Nature of expenses; and v. Disposal manner of non-*halal* income.	Tr*i*-3 MASB; Haniffa (2002) Tri-3 MASB; Haniffa (2002) Haniffa (2002); Tr*i*-3 MASB Haniffa (2002); Tri-3 MASB Tr*i*-3 MASB

Table 1. Index of IFSR for Islamic banks in Malaysia (continued)

No.	*Items of reporting*	*Basis of Reference*
	Finance, accounting and investment	
10.	Product or service reporting i. Activities and % of profit contribution	AAOIFI Haniffa (2002)
11.	Reporting on significant concentrations of asset risks in the following areas: i. Geographical areas; ii. Customer groups; iii. Industry sectors; or iv. Other concentrations of risk that are appropriate.	Tr*i*-3 MASB
12.	Bases of profit allocation between owners' equity and investment account holders (IAHs) (Please refer to the note for description on IAHs).	AAOIFI
13.	Reporting of concentration of sources of investment accounts and their equivalent, and other accounts.	Tri–3 MASB; GP8-i BNM
14.	Disclosure of investment accounts distribution and their equivalent, and other accounts in accordance with respective periods to maturity.	Tri–3 MASB
15.	Reporting on distribution of assets in accordance with respective periods to maturity or expected periods to cash conversion.	Tri–3 MASB; GP8-i BNM
16.	Disclosure of commitment and contingencies: i. Nature of commitments that are irrecoverable; ii. Amount of commitments that are irrecoverable; iii. Nature of contingencies arising from direct credit substitutes, transaction related contingencies, sales and repurchase agreements, and other contingencies of a similar nature; and iv. Amount of contingencies arising from direct credit substitutes, transaction related contingencies, sales and repurchase agreements, and other contingencies of a similar nature.	Tri–3 MASB; GP8-i BNM
17.	Reporting of co-mingling of various types of deposit into a single funding pool: i. Method of income allocation among various categories of deposit.	Tri–3 MASB; GP8-i BNM
18.	Disclosure of profit distribution derived from investment of depositors' funds at the gross level: i. After deducting expenditure to the extent that they are directly attributable to the investment of those funds.	Tri–3 MASB; GP8-i BNM
19.	Reporting of specific investment accounts: i. Separate disclosure of profits or losses; and ii. Not to be offset with profits or losses from other items.	Tri–3 MASB; GP8-i BNM
20.	Adequate and timely disclosure: i. Information on investment accounts: a. Method of calculation of profits; b. Asset allocation; c. Investment strategies; and d. Mechanics of smoothing any returns. ii. Information on any related party transactions and treatment of material events.	IFSB
	Employees, society and environment	
21.	Education and training / Human capital development.	Maali et al. (2006); Haniffa (2002)
22.	Recruitment policy.	Present study
23.	Remuneration policy.	Present study
24.	Career advancement policy.	Present study
25.	Retirement policy.	Present study
26.	Charities / gifts.	Maali et al. (2006)
27.	Social activities.	Maali et al. (2006)
28.	Policy on social issues.	Present study
29.	Policy on environmental issues.	Present study
30.	*Saddaqa* / donation.	Haniffa (2002)
	Auditing and governance	
31.	Statement of corporate governance should include the following: i. Board responsibility and oversight; ii. Internal audit and internal control activities; iii. Risk management; and iv. Management reports.	GP8-i BNM
32.	Existence of comprehensive governance policy framework that sets out: i. Strategic roles and functions of each organ of governance and the mechanisms of balancing their accountabilities to various stakeholders; and ii. Roles and authority of Shari'ah advisor or Shari'ah board in monitoring the IFI's activities pertaining to Shari'ah matters.	IFSB Tri-3 MASB; GP8-i BNM
33.	Investment account holders' (IAHs) rights to monitor investment performance, i.e. disclosure of policies and practices in respect of the investment accounts offered.	IFSB
34.	Disclosure of practices, procedures and entitlements that adequately address any undesirable ambiguity that are tantamount to *gharar* with respect to the profit equalization reserve (PER).	IFSB
35.	Disclosure of an appropriate mechanism for obtaining rulings from Shari'ah scholars, applying *fatawa* and monitoring Shari'ah compliance.	IFSB
36.	Information on compliance with the Shari'ah rules and principles as expressed in the rulings of the Shari'ah scholars.	IFSB
37.	Reporting of rulings of the Shari'ah scholars that are used to examine compliance with Shari'ah rules and principles.	IFSB
38.	Policy of treatment for non-compliant activities.	Present Study

6. CONCLUSIONS

The growing significance of the Islamic banking industry reflects the need to understand as well as to address the issues concerning its financial and social reporting disclosure. Indeed, it is vital to address issues concerning corporate financial reporting due to its effects on stakeholders. Corporate financial reporting is regarded as being important because of the information asymmetry problems as well as the agency conflicts that exist between the management of corporations and the stakeholders (Healy and Palepu, 2001).

From the perspective of Islamic banks the issues of mandatory and voluntary disclosure are both considered as being of equal importance due to the fact that the Islamic banks are not only established to maximize the wealth of their owners but also to ensure that the welfare of the society is enhanced (Haniffa and Hudaib, 2007). The IFSR index is an effort to promote more appropriate financial and social reporting disclosure in Islamic banks either locally or abroad.

It is perceived that the index developed will ensure that the firms, e.g. Islamic banks, will move towards achieving the overall aims (*maqasid*) of Shari'ah. According to Ahmed (2011), the overall *maqasid* of Shari'ah is to promote welfare as well as to prevent harm among humankind. Consequently, the index has been carefully developed from relevant standards, guidelines and literature to ensure that corporate accountability in Islamic banks can be properly discharged towards the *maslahah* of the *ummah,* both in Malaysia as well as the rest of the world.

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