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Sharia Disclosure Practices: A Comparison of Islamic Banks in Indonesia and Malaysia

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Abstract: The growth of Islamic banking, particularly in Indonesia and Malaysia, has resulted in an increase in assets and disbursement in the two developing countries. This provides an opportunity as well as challenges in implementing good governance to maintain compliance with sharia principles. Involving data from Islamic banks in Indonesia and Malaysia from 2016 to 2018, this study aims to measure the Sharia disclosure level with seven indicators developed from previous research. The results demonstrate that Islamic banks in both countries did not meet the full Sharia disclosure requirement, as evidenced by an index of less than one, namely 0.76 for Islamic banks in Indonesia and 0.57 for Islamic banks in Malaysia. The findings of this study are expected to contribute to the improvement of the management of Islamic banks in both countries, to provide more comprehensive sharia disclosure in their annual report.

Keywords: Sharia Reporting; Comparative Islamic Finance; Corporate Governance in Sharia Banks; Indonesia and Malaysia Financial Institutions; Compliance Disclosure Index

Abstrak: Pertumbuhan perbankan syariah, khususnya di Indonesia dan Malaysia, telah menghasilkan peningkatan aset dan penyaluran kredit di kedua negara berkembang tersebut. Hal ini memberikan peluang sekaligus tantangan dalam menerapkan tata kelola yang baik untuk menjaga kepatuhan terhadap prinsip-prinsip syariah. Dengan menggunakan data dari bank syariah di Indonesia dan Malaysia dari tahun 2016 hingga 2018, penelitian ini bertujuan untuk mengukur tingkat pengungkapan syariah dengan tujuh indikator yang dikembangkan dari penelitian sebelumnya. Hasil penelitian menunjukkan bahwa bank syariah di kedua negara tidak memenuhi persyaratan pengungkapan syariah secara penuh, yang dibuktikan dengan indeks yang kurang dari satu, yaitu 0,76 untuk bank syariah di Indonesia dan 0,57 untuk bank syariah di Malaysia. Temuan penelitian ini diharapkan dapat memberikan kontribusi bagi perbaikan manajemen bank syariah di kedua negara, untuk memberikan pengungkapan syariah yang lebih komprehensif dalam laporan tahunan mereka.

Kata Kunci: Pelaporan Syariah; Perbandingan Keuangan Syariah; Tata Kelola Perusahaan di Bank Syariah; Lembaga Keuangan Indonesia dan Malaysia; Indeks Pengungkapan Kepatuhan

Introduction

In 2019, Indonesia and Malaysia were ranked first and second in the global Islamic finance index, an index that measures a country's performance in implementing Islamic finance and banking. Islamic banking assets in Indonesia, based on data from the Financial Services Authority (OJK), in 2018 grew by 12.57% reaching IDR 489.7 trillion. The Islamic banking market share reached 5.96% of the total national banking market share, with IDR 329.3 trillion in disbursement and IDR 379.9 trillion in third-party funds collected. In Malaysia, Islamic banking assets increased to RM 742 billion with a market share of 28% in 2016. The total financing disbursed was RM 550 billion and third-party funds collected were RM 529 billion.

An important issue to note is sharia compliance along with the development of Islamic banking. Kasim (2012) argues that sharia compliance is a way for Muslims to carry out their religious obligations by looking for halal income (Surah Al Jumu'ah verse 10). Sharia compliance ensures that the income received by every Muslim adheres to the provisions of Islamic law. However, In Indonesia, Islamic banks are still not deemed optimal in terms of conducting business in compliance with Sharia laws. This is indicated by products and practices that tend to be similar to those in conventional banks (Imamia et al., 2019).

Sharia annual reports (SARs) serve an important role in enabling information between members of the sharia board and stakeholders as an integral component of Islamic governance to ensure religious compliance (Sencal & Asutay, 2021). Companies will have more value in the eyes of stakeholders if Islamic banks offer transparency in corporate social responsibility in their annual reports or on their websites (Harun et al., 2020). Previous research has found that financial disclosure is more prevalent than social disclosure in Islamic banks' annual reports (Grassa et al., 2019).

Research on the disclosure of sharia compliance in Islamic financial institutions has been carried out by several previous researchers. Maali et al. (2006) examined the disclosure of social responsibility aspects of Islamic banks by developing a social reporting framework based on an Islamic perspective by referring to the AAOIFI standards and previous research. They compared the disclosure of the social responsibility of Islamic banks in the annual report with the social reporting framework that has been built to find out whether Islamic banks have carried out their social responsibilities well or not. A similar study was also conducted by Haniffa and Hudaib (2007) who developed an ideal ethical framework for Islamic banks to measure the extent to which Islamic banks comply with the applicable ethical system.

Although those two studies do not specifically refer to the disclosure of sharia compliance, the framework that has been built has included sharia elements such as the Sharia Supervisory Board (SSB) report, disclosure of products that are in accordance with sharia principles, reporting on the distribution of zakah and other benevolent funds, and non-halal income disclosure that obtained by Islamic banks. Aribi et al. (2015) examined the role of SSB in disclosing accountability in Islamic financial institutions by incorporating elements of the audit process from the sharia aspect. Abdullah et al. (2013) specifically examined the disclosure of sharia aspects (sharia disclosure) in Indonesian and Malaysian Islamic banks to measure the performance of the sharia governance system. This study developed an indicator of sharia disclosure by including aspects of the SSB report, the background of the SSB members, the sharia audit process, and the disclosure of zakah obligations.

This study revolves around the level of disclosure of sharia compliance by Islamic banks in Indonesia and Malaysia. This study aims to develop indicators of sharia disclosure by combining aspects of sharia disclosure from various previous studies. The combination of sharia disclosure indicators from previous studies serves as the novelty of this study. Sharia disclosures in this study include SSB, disclosures about investment paths and Islamic evidence, Islamic products and services, Sharia statement disclosures, annual report disclosures, sharia audit reports, and bank charitable account details disclosure (Ismail et al., 2020). This study expects to contribute to the development of literature regarding the disclosure of aspects of sharia compliance by Islamic banks to encourage the performance of Islamic banks in implementing better sharia compliance in the future.

Literature review

Disclosure of Sharia Compliance

Islamic banks should disclose all information related to sharia aspects in their annual report. According to Noordin & Kassim (2019), that information includes a report of the Chairman of the Sharia Committee, the report of the Sharia Committee, and the report on internal control. Furthermore, information on the Sharia Committee's composition, such as the number of members, educational background, and qualifications, should be included in the Sharia Committee profile and corporate governance statement. Failure to comply with Islamic finance principles can expose Islamic banks to reputational risk (Abdullah et al., 2013). Disclosure of sharia aspects is a way to determine the performance of banks in implementing sharia compliance. Disclosure of sharia compliance reveals matters relating to sharia principles in the operational activities of Islamic banks are aspects that distinguish them from conventional banks. The following are the aspects that will be examined in this research.

Profile of Sharia Supervisory Board (SSB) in Indonesia

Sharia Supervisory Board is one of the Islamic governance elements that must exist in Islamic financial institutions. The SSB serves as a unit that oversees the operational activities of Islamic banks to ensure that the products offered do not compromise Sharia law. The background of SSB members, as well as their roles and obligations, must be specifically described in the annual report. Sadekin and Islam (2020) describe that the disclosure of the SSB profile also affects customer interest. Customers are interested in the status and reputation of SSB members in society. The importance of the role of SSB is very necessary for Islamic banks and other Islamic Financial Institutions to disclose the quantity and quality of their SSBs. This is in line with Aribi et al. (2015) and Haniffa and Hudaib (2007) that Islamic financial institutions are expected to disclose the qualifications possessed by their SSB members to assure stakeholders that their SSB has the necessary competencies and knowledge deemed for their work (i.e., specialized knowledge in the field of Shariah) as well as competencies in Islamic banking and finance, accounting, and auditing. However, the disclosure of aspects of the SSB profile is still low in Islamic Banks in Indonesia (Darmadi, 2013).

Sharia Supervisory Board Report

The SSB report is an independent judgment from the SSB regarding the operational activities of Islamic banks, whether they comply with Sharia principles or not. The SSB report was produced after a review was completed by the SSB. The completeness of the SSB report elements such as title, intended party, SSB performance reporting, SSB opinion, SSB signature, and report date must be disclosed. Research conducted by Maali et al. (2006) shows that most Islamic banks publish SSB reports. The majority of annual reports of Islamic banks include SSB reports (Aribi et al., 2015). This underlines the significance of Islamic banks' reports in providing stakeholders with information about sharia compliance. The demand for transparency by stakeholders, as well as the requirement of Islamic banks to conduct their activities in conformity with Islamic principles, have motivated the SSB to publish the SSB report (Abdullah et al., 2013).

Non-halal Transaction

Because Islamic banks must operate within Sharia law, it is critical to be transparent if there is profit from non-shariah-compliant activity (Ariffin et al., 2021; Nor & Sawari, 2020). Non-halal transactions are Islamic bank transactions that do not adhere to Sharia laws. Maali et al (2006) found that several Islamic banks charge clients who are late in paying their loans with fines that may be in the form of interest, which is strictly prohibited by Islam but has not been disclosed in their annual reports. A similar result was found by Mohd Ariffin et al (2021), regarding *gharamah* and *ta'widh* transactions in Islamic banks. Islamic banking is prohibited from using interest in financial transactions since it entails *usury*, *maysir*, and *gharar* (Imamia et al., 2019). The income from this transaction may not be recognized as Islamic bank income, but it is funneled through a benevolent fund. Non-halal transactions are unavoidable for Islamic banks, particularly in countries that still use a dual banking system. Although non-halal transactions are carried out forcibly, Islamic banks should disclose how the profits from those transactions are managed. According to Puspitasari and Handayani (2020), Islamic banks must declare the utilization of *gharamah* in a note to the "Source and use of donations or charitable funds" account, and banks that do not charge *gharamah* or *ta'widh* fees must make this clear to their stakeholders. Maali et al (2006) consider that Islamic banks must provide information on these non-halal transactions, such as (a) the nature of the transaction, (b) the reasons for carrying out the transaction, (c) the opinion of the Supervisory Board regarding the need to carry out these activities, (d)) the amount of revenue (expense) earned (paid) in the transaction, and (e) how the bank disposes of or intends to dispose of, the income.

In Malaysia, the disclosure of the Sharia Committee of several Islamic banks has not met the standards in non-halal income disclosure, although, in 2018, BNM has issued a Financial Reporting Policy Document for Sharia Banking Institutions (Nor & Sawari MD, 2020). Abdullah et al. (2013)

maintain the need for SSB to provide clear opinions on the existence or non-occurrence of non-halal revenue, rather than just broad confirmation of Sharia compliance. When illegal or non-halal profits are discovered, the SSB must explain how they have taken steps to guarantee that similar Sharia violations do not occur in the future.

Islamic Bank Products

The types of products and services Islamic banks offer must be different from those offered by conventional banks. Corporate communication strategies regarding product-related information are important for users of corporate annual reports to assess the ethical business behavior of Islamic banks (Haniffa & Hudaib, 2007). Corporate communication strategies for product-related information are important for users of corporate annual reports to evaluate Islamic banks' ethical business practices. Therefore, Islamic banks must explain what contracts are used in the products offered. Customers are interested in knowing how Islamic bank products are free of interest and what is the difference from conventional banks (Sadekin & Islam,2020). Customers are also interested in researching the products, services, and facilities provided by Islamic banks on their websites.

Sharia Audit

Sharia auditing is one of the governance processes required in sharia banks to guarantee that sharia bank operations do not contradict sharia principles. The purpose of a sharia review is to ensure that all activities are carried out following Sharia principles (Aribi et al., 2015). Internal Shariah audit is an independent department that checks and evaluates the extent of compliance with fatwa and shariah rules. It is envisaged that SSB will work with internal sharia auditors to manage Islamic banks' sharia compliance to improve shareholder value and stakeholder trust. According to Aribi et al. (2015), SSB in general are more inclined to report information on standard report formats (such as title, date, recipient, and signature) and background of

SSB, but pay less attention to unlawful transactions. The sharia compliance unit or sharia internal auditor must exist in the Islamic bank governance system and the SSB report should discuss it. The results of previous studies indicate that the disclosure of SSB among Islamic banks in Indonesia and Malaysia is still below the desired level, especially in procedures, sharia audit activities and sharia compliance carried out by banks. (Abdullah et al., 2013). Darmadi (2013) highlights that Islamic banks need to disclose a series of important factors, such as the internal control framework, the duties and responsibilities of the internal audit division, and the internal audit certification held by employees. Puspitasari & Handayani (2020) state that Islamic banks that have internal audit staff who have academic qualifications, professional qualifications, and relevant experience will provide better disclosure of their sharia compliance aspects.

The existence of an audit committee is an important part of the decision control system used by the board of directors in monitoring internal control. The audit committee is tasked to follow up and evaluate the work of the sharia internal audit (Segarawasesa, 2021; Elgattani & Hussainey, 2020). Mnif & Tahari (2020) state that compliance with the disclosure requirements is positively influenced by the independence of the audit committee, the audit committee's accounting and financial expertise, and the auditor's industry specialization.

Zakah

Zakah is a responsibility for any Muslim whose wealth has reached the *nisab* to spend it for Allah. Currently, zakah is not only required for individuals but also for entities that carry out their activities with sharia principles. Abdullah et al. (2013) argue that Islamic banks have social and economic obligations to recognize the importance of zakah so SSB must verify the validity of zakah calculations. Zakah-related SSB ratification statements are typically disclosed in two reports: the annual report in the Directors'

Report section and the SSB report. Because of the judgment of third parties, disclosures made in the SSB report are regarded as more credible. Disclosures made elsewhere in the annual report by management only re-emphasize the compliance status of the bank's zakah. The method used in calculating zakah must also be explained, especially if it does not use the standard for calculating zakah that has been issued by the regulator (i.e., AAOIFI). AAOIFI in Financial Accounting Standard No. 9 has provided the guidelines for zakah based on the current value or fair value.

Abdullah et al. (2013) report that efforts must still be made to meet a better level of disclosure of annual reports of Islamic banks in Malaysia and Indonesia. The lack of disclosure in the area of zakah could be due to the incompatibility of current accounting and reporting standards of zakah in Malaysian and Indonesian Islamic banks. The low motivation for Islamic banks to increase information about zakah is due to the lack of demand for such disclosure by stakeholders. Relating to the disclosure of zakah in Islamic banks, Maali et al (2006) and Haniffa & Hudaib (2007) state that the source and use of zakah must be reported, and the amount for zakah must follow Islamic principles.

***Qardhul Hasan* and Other Benevolent Funds**

Qardhul Hasan is a loan given to consumers in need. According to Haniffa and Hudaib (2007), one of the unique features of Islamic banks is the provision of *Qardhul Hasan* (benevolent funds) that provide loans without expecting additional payments on the principal payments. The amount of the loan returned by the customer is the same as the amount of the loan granted by the Islamic bank. Benevolence funds are from *infaq* and alms of Islamic bank employees or customers and non-halal income from Islamic banks which are channeled for social purposes and must be stated in a report on the source and distribution of these funds. A lack of policies regarding the objective and who is the recipient of the funds can result in the misuse of these funds. Those who are less fortunate in society must be prioritized in accessing these funds if Islamic banks want to enforce social justice (Haniffa & Hudaib, 2007).

The bank providing the *Qardhul Hassan* loan must disclose the amount to the beneficiary during the year, and the purpose for which the loan was made. They must also disclose the source from which the loan has been financed, for example from the bank's funds and depositors' funds (Maali et al., 2006). Empirical evidence found by Mohd Ariffin et al. (2021) shows that the disclosure of *Qardhul Hassan* is still low. Only four Islamic banks out of 16 reveal the usage of *Qardhul* funds, and one does not disclose the beginning balance, ending balance, or source of *Qardhul* funds. Islamic banks should be involved in other social activities, such as making charitable donations. According to Maali et al. (2006), Islamic banks must disclose (a) the nature of the charitable and social activities financed by the bank, (b) the amount spent on these charitable and social activities, and (c) the sources of funds used for charity (income from halal sources as well as from prohibited transactions) by Sharia.

Methods

This study utilized secondary data from annual reports of Islamic banks in Indonesia and Malaysia from 2016 to 2018. Purposive sampling, which is a sampling technique based on certain criteria, was performed. Those criteria are: (1) Islamic commercial bank (full-fledged Islamic bank), (2) The majority of bank ownership is from domestic investment (PMDN), (3) Having a separate annual report from its parent, and (4) has been operating in each country for at least 10 years.

Content analysis was used by employing the scoring method. It was done by examining the text in the annual report based on the indicators, then evaluating in the form of numbers. If the indicator is disclosed in the annual report, it is assigned a value of 1, otherwise, it is assigned a value of 0. The results of the scoring will reflect the level of sharia disclosure of the selected Islamic bank as a sample.

There are seven aspects or indicators to be identified the in the annual report of Islamic banks. They are SSB profile, SSB report, Islamic banks product, non-halal transactions, sharia audit, zakah, and *Qordhul Hasan* and benevolence fund. The Sharia disclosure index consists of 30 items derived from seven indicators. To determine the level of sharia disclosure in Islamic banks, a sharia disclosure index was constructed. The following is the formula for calculating the shariah disclosure index (SDI).

$$\text{SDI} = \frac{\sum_{i=0}^{n} Xi}{\text{n}}$$

SDI = sharia disclosure index

Xi = the number of indicators disclosed by the i-th Islamic bank, if disclosed is 1, if not disclosed is 0.

n = the total indicators studied, which are 30 indicators.

Result and discussion

Result

Based on the selection criteria for Islamic banks, there are ten Islamic banks in Indonesia and Malaysia included in this study. Table 1 summarizes the result of the sharia disclosure index by indicators:

Table 1. Sharia Disclosure Index of Indonesian Islamic Banks

Islamic Banks in Indonesia	2016	2017	2018	Average
Bank Muamalat Indonesia	0.83	0.77	0.77	0.79
Bank Syariah Mandiri	0.87	0.83	0.83	0.84
BRI Syariah	0.67	0.70	0.70	0.69
BNI Syariah	0.80	0.77	0.77	0.78
Bank Mega Syariah	0.73	0.60	0.73	0.69

Annual Average	**0.78**	**0.73**	**0.76**	**0.76**

Table 1 describes the score of the sharia disclosure index for Indonesian Islamic banks. The highest score is 1. However, there are no Islamic banks that achieve the highest score. It can be seen that the Indonesian Islamic banks that have the score closest to the perfect index are Bank Syariah Mandiri, followed by Bank Muamalat Indonesia, BNI Syariah, and finally BRI Syariah and Bank Mega Syariah. The average index for all Islamic banks is 0.76. Islamic banks that still have index values below the average value are BRI Syariah and Bank Mega Syariah. To conclude, the sharia disclosure index of Indonesian Islamic banks is relatively high.

Table 2. Shariah Disclosure Index of Malaysian Islamic Banks

Islamic Banks in Malaysia	2016	2017	2018	Average
Affin Islamic Bank	0.53	0.47	0.50	0.50
Bank Islam Malaysia Berhad	0.53	0.53	0.53	0.53
Bank Muamalat Malaysia Berhad	0.57	0.63	0.60	0.60
Hong Leong Islamic Bank	0.53	0.53	0.53	0.53
RHB Islamic Bank	0.67	0.67	0.67	0.67
Annual Average	**0.57**	**0.57**	**0.57**	**0.57**

Table 2 describes the score of the sharia disclosure index for Malaysian Islamic banks. There is no difference in the average score of the sharia disclosure index for three years, which is 0.57. The highest score is achieved by RHB Islamic banks with a score of 0.67, followed by Bank Muamalat Malaysia Berhad, Bank Islam Malaysia Berhad, Hong Leong Islamic Bank, and Affin Islamic Bank. Islamic banks that still have index values below the average are Affin Islamic Bank, Bank Islam Malaysia Berhad, and Hong Leong Islamic Bank. Thus, the disclosure index of sharia aspects of Islamic banks in Malaysia is still relatively low when compared to Islamic banks in Indonesia.

Table 3. Sharia Disclosure Index by Category (Indonesia)

Islamic Banks in Indonesia	**SSB Profile**	**SSB Report**	**Sharia Bank Products**	**Non-halal transaction**	**Sharia Audit**	**Zakah**	***Qardhul Hasan* & Benevolence Fund**
Bank Muamalat Indonesia	1	0.72	1	0.67	1	0.5	0.8
Bank Syariah Mandiri	1	0.78	1	0.8	1	0.5	0.93
BRI Syariah	0.95	0.72	0.67	0.4	0.5	0.5	0.8
BNI Syariah	1	0.5	1	0.73	1	0.42	1
Bank Mega Syariah	0.9	0.67	1	0.8	0.17	0.25	0.8
Average	**0.97**	**0.678**	**0.934**	**0.68**	**0.734**	**0.434**	**0.866**

Table 4. Sharia Disclosure Index by Category (Malaysia)

Islamic Banks in Malaysia	**SSB Profile**	**SSB Report**	**Sharia Bank Products**	**Non-halal transaction**	**Sharia Audit**	**Zakah**	***Qardhul Hasan* & Benevolence Fund**
Affin Islamic Bank	0.76	0.67	1	0	0.5	0.67	0.2
Bank Islam Malaysia Bhd	1	0.5	1	0.4	0.5	0.25	0.2
Bank Muamalat Malaysia Bhd	0.67	0.5	1	0.8	0.5	0.58	0.4
Hong Leong Islamic Bank	0.86	0.67	1	0.6	0.5	0.25	0
RHB Islamic Bank	1	0.67	1	0.8	0.5	0.5	0.2
Average	**0.858**	**0.602**	**1**	**0.52**	**0.5**	**0.45**	**0.2**

The sharia disclosure index consists of several indicators that reflect the elements of Islamic law in Islamic banks that are not found in conventional banks. Table 3 reveals the sharia disclosure index by category for Islamic banks in Indonesia. Zakah is a sharia aspect that is not disclosed in the annual reports of Islamic banks in Indonesia, while the profile of SSB, sharia bank products, and *qardhul hasan,* and other policy funds are well disclosed in the annual report.

Table 4 reveals the sharia disclosure index by category for Islamic banks in Malaysia. *Qardhul Hasan* and benevolence funds, zakah, sharia audits, non-halal transactions, and SSB reports are not disclosed in the annual reports of Islamic banks in Malaysia. Meanwhile, Sharia bank products and SSB profiles have been well disclosed.

Discussion

Tables 1 and 2 indicate the average index value of each Islamic bank in Indonesia and Malaysia from 2016 to 2018. Islamic banks in Indonesia have a better sharia disclosure index with an overall index average of 0.76, while the average index of Islamic banks in Malaysia is 0.57. Bank Syariah Mandiri and Bank Muamalat Indonesia are the two Indonesian Islamic banks that achieved the highest index. The two Islamic banks are the oldest Islamic banks operating in Indonesia so in annual reporting and disclosure of sharia aspects, both Islamic banks have a better experience than other Islamic banks. RHB Islamic Bank got the highest index in the sample Bank in Malaysia with a score of 0.67, followed by Bank Muamalat Malaysia Berhad with 0.60. The sample of Islamic banks in both countries has not yet reached the maximum index scale (score 1). According to the findings of this study, there are still gaps in the disclosure of certain aspects of Islamic banks in both Indonesia and Malaysia.

SSB Profile Disclosure

The SSB profile obtained the highest results among the disclosures of other aspects of the sample Islamic banks with a score of 0.97 for Islamic banks in Indonesia and 0.858 for Islamic banks in Malaysia. This is in line with the research of Abdullah et al. (2013), which states that Islamic Banks in Indonesia have disclosed the background of SSB members (membership and charter, educational background, and experience). A study with similar results was revealed by Khansa and Violita (2021) with a sample of Islamic banks in Indonesia and Malaysia. The information dimension of SSB members of Islamic banks in Indonesia is 78%, while the score of Islamic banks in Malaysia is 75%.

Most of the banks in the sample disclose information regarding SSB meetings, SSB attendance, and SSB remuneration. This is in line with the finding of Aribi et al. (2015) that from 12 Islamic Financial Institutions operating in GCG countries and Malaysia, all institutions provide information about the background of SSB members and the names of SSB members, but only some consistently disclosed member photos, qualifications, and remuneration for the year of 2008-2011. The lack of disclosure in Islamic banks is likely to be evaluated and improved to show the SSB profile more specifically (Sadekin & Islam, 2020). This improvement can be supported by evaluating the composition of the members of the SSB and the Sharia Committee. Noordin and Kassim (2019) state that Islamic banks that have a Sharia Committee with the majority of their members having excellent basic Sharia knowledge and professionalism in finance, accounting, and economics tend to make better disclosures regarding Sharia issues.

SSB Report Disclosure

This study finds that the SSB report index in the sample of Islamic banks in Indonesia is 0.678, while Islamic banks in Malaysia are 0.602, which means that the index of Islamic banks in Indonesia is higher than in Malaysia. This finding contradicts the study conducted by Khansa and Violita (2021) that the sharia disclosure index in terms of SSB reports of Islamic banks in Indonesia is lower (61%) than in Malaysia (88%). However, the differences in the number of indicators examined between this study (6 indicators) and Khansan and Violita (2021) (10 indicators) could explain the disparity in results. This study follows the indicator by Abdullah et al. (2013) and Aribi et al. (2015). The indicators of the SSB report in this study are the title of the report, the intended party, the reporting of SSB performance, SSB opinion regarding the compliance of Islamic banks, the signature of the SSB, and the date of the report. The completeness of the indicators of the SSB report is as described in the AAOIFI Governance Standard No.1. (Vinnicombe, 2010).

Most of the samples of Islamic banks in Indonesia do not include the intended party for the SSB report such as shareholders and the general public and do not include the date of the report. The indicators that have not been disclosed by most of the annual reports of Malaysian Islamic banks are the addressee, the signature of the SSB, and the date of the report. The intended party is an important indicator showing whom the SSB report is made for. The SSB signature and the date of the report are required to ensure that all SSB members agree with the contents of the SSB report which will be published together with the annual report. According to Darus et al. (2018), some aspects that should be written in the report are the background of SSB members, the number of SSB members, reports signed by all members, examination of all documents reported by SSB, certification of profit and loss sharing according to sharia, zakah calculated according to sharia, and screening of Islamic investment.

Islamic Bank Products

In the study, the Islamic bank product disclosure index received a score of 0.934 for Islamic banks in Indonesia and a perfect score (score 1) for Islamic banks in Malaysia. The results show that Islamic banks in Indonesia and Malaysia have provided information about the contracts used by Islamic banks. This may be related to the existence of effective SSB supervision and regulation, as also revealed by Haniffa and Hudaib (2007), that strict supervision from the Central Bank has increased the Ethical Identity Index in the service and product dimensions.

Non-halal Transaction

The non-halal transaction disclosure index of Islamic banks shows a score of 0.68 for Islamic banks in Indonesia and 0.52 for Islamic banks in Malaysia. This result is similar to the finding of Aribi et al. (2015) that Islamic banks in GCC countries and Malaysia has a low disclosure index with a score of 0.11. Another study by Nor and Sawari (2020) find that 9 out of 16 Islamic

Commercial Banks in Malaysia have met the standards provided by Bank Negara Malaysia in reporting non-halal transactions in the annual report. One bank does not report it at all, and six other banks only provide general statements about non-halal income. In this study, it is found that all samples of Islamic banks have contained SSB opinions regarding non-halal transactions in the SSB reports, but some of them have not disclosed in detail the amount and sources of non-halal income and the reasons why Islamic banks were involved in non-halal transactions.

Although there should be documented procedures established regarding the management and administration of non-halal income, some events still occur in practice, such as the absence of authorization from the Sharia Committee for various types of income channeled to non-halal income accounts, unauthorized use for other purposes, not reported in the annual financial report; and distribution is done prior to obtaining approval from the Sharia Committee. Therefore, it is important to have a comprehensive, strong, and well-functioning internal control system to ensure that all non-halal income is properly regulated and managed (Hanefah et al., 2020).

Sharia Audit

The results of this study indicate that the disclosure index of the Shariah audit category in Indonesian and Malaysian Islamic banks is 0.734 and 0.500, respectively. In the sample, three out of five Islamic banks in Indonesia have met the Sharia audit component in their annual financial statements, namely Bank Muamalat Indonesia, Bank Syariah Mandiri, and BNI Syariah with a perfect index or 1. This result shows an improvement from the results of previous research by Darmadi (2013), which states that the good internal audit reports of Islamic banks in Indonesia are only achieved by Bank Muamalat Indonesia and Bank Syariah Mandiri.

Two indicators of Sharia audit in this study are the existence of a sharia compliance unit or sharia internal auditor and disclosure of the inspection and supervision process by the Sharia Supervisory Board. All samples of Malaysian Islamic banks have had a shariah audit and shariah review unit, but all of these samples did not reveal the process of checking and supervising sharia compliance by SSB. It is important to disclose the inspection process related to sharia compliance by SSB because it shows how the procedures are carried out by SSB to ensure that sharia banks comply with applicable sharia regulations and fatwas. This is also supported by the research of Segarawasesa (2021), that the existence of an audit committee is important for Islamic banks, because of its roles as (1) a decision control system carried out by the board of directors in monitoring internal control, and (2) following up and evaluating the performance of Sharia internal audit in finding the transactions that are not in accordance with Sharia principles. Sharia Commercial Bank compliance is significantly influenced by the characteristics of the internal audit and compliance function, such as academic qualifications, professionalism, and relevant experience (Puspitasari & Handayani, 2020; Mnif & Tahari, 2020).

Zakah Disclosure

The aspect that has the lowest disclosure index is zakah, with an average of 0.43 at Indonesian Islamic Banks and 0.45 at Malaysian Islamic banks. In another study, Haniffa & Hudaib (2007) also find a low disclosure with a score of 0.39. In the aspect of zakah, the indicators consist of reports on sources and uses of zakah funds, the final balance of zakah and the reasons why banks do not distribute all zakah funds, zakah calculation methods, and SSB opinion regarding zakah calculation and distribution (Aribi et al., 2015; Maali et al., 2006).

The method of calculating zakah, the opinion of SSB regarding the calculation and distribution of zakah, as well as the final balance of zakah that has not been distributed, have not been disclosed by several Islamic banks in their annual reports. This evidence becomes an important note for Islamic banks in the disclosure of zakah in the next reporting period. Research by Abdullah et al. (2013) states that 35% of the sample of Islamic banks have provided validation of the calculation of zakah. Aribi et al. (2015) state that the amount of zakah calculation should be following Islamic principles. The final balance of zakah will reveal whether or not the zakah fund has been distributed in the report on the source and use of zakah funds. The analysis results show that most Islamic banks in Indonesia have not distributed all the zakah funds collected in the current period. Islamic banks also do not disclose the reasons why there are still undistributed zakah funds in their annual reports. Bank Muamalat Indonesia is the only sample that distributes all zakah funds so the final balance on the zakah report is 0.

Zakah information must be disclosed by Islamic banks because stakeholders want to know the source of funds, the amount collected, and their use (Mohd Ariffin et al., 2021). However, all samples of Islamic banks in Malaysia have not included reports on sources and uses of zakah funds in their annual reports. Because there are no reports on the source and use of zakah funds, it is impossible to tell whether or not the collected zakah funds have been distributed. All samples of Islamic banks have disclosed the method of calculating zakah in the notes to the financial statements, which is 2.5% of profit before zakah and taxes. The SSB opinion regarding the calculation and distribution of zakah has been clearly written in the SSB report. Islamic Bank Malaysia and Hong Leong Islamic Bank are still very minimal in the disclosure of zakah, which is 0.25. The low disclosure of zakah in Islamic banks in Malaysia was also found by Zuha Mohd Abbas et al. (2018), in analyzing zakah payments in financial statements. It is found that all Islamic banks do not disclose detailed calculations of zakah until zakah payments. Variations in the results of zakah disclosure are also influenced by the regulation whether the disclosure is mandatory or voluntary. Maali et al. (2006) state that banks that are required to pay zakah provide more social disclosures than banks that are not required to pay zakah. For countries that have not imposed zakah obligations, the disclosure of zakah may be still low.

Qardhul Hasan and Benevolence Fund

Qardhul Hasan is one of the Islamic bank products that provide loans to customers who are in need without charging any extra amount. Banks that offer qardh disclose details of qardh funds related to their use, source of qardh funds, and beginning and ending balances of qardh funds (Mohd Ariffin et al., 2021). Virtue funds are funds originating from infaq, alms, and non-halal income of Islamic banks which are channeled for social purposes.

The results of this study indicate a significant difference in the disclosure of *Qardhul Hasan* unds between Islamic banks in Indonesia (0.866) and Islamic banks in Malaysia (0.2), respectively. Based on the results of the analysis, the low disclosure in Malaysian Islamic banks is because only Bank Muamalat Malaysia Berhad distributes financing with *Qardhul Hasan* contracts. The other four Islamic banks do not distribute *Qardhul Hasan* financing. Most of the Islamic banks in Indonesia have distributed *Qardhul Hasan* funds and benevolence funds, and have disclosed them well in their annual financial statements. Research by Khansa and Violita (2021) shows a similar result that *Qardhul Hasan* in Islamic banks in Indonesia (60%) is higher than and Malaysia (18%). However, the study by Mohd Ariffin et al. (2021) found that Islamic bank in Malaysia has 100% disclosed the use of *Qardhul Hasan* funds, but only 75% have disclosed the beginning and ending balances, as well as the source of the *Qardhul Hasan* funds.

Conclusion

According to the index score generated from various categories of Sharia disclosure, the level of sharia disclosure by Islamic banking in Indonesia and Malaysia has not reached the desired optimal level. Islamic banks in Indonesia have higher disclosure of 0.76, compared to the disclosure index of Islamic banks in Malaysia of 0.57. However, both countries' indices are less than the maximum score of 1. Islamic banking in Indonesia has a better sharia disclosure index than Islamic banking in Malaysia. Despite having a better sharia disclosure index, Islamic banks in Indonesia still have less disclosure related to SSB reports, non-halal transactions, and zakah. Meanwhile, Islamic banks in Malaysia should have attention to SSB reports, non-halal transactions, sharia audits, zakah, as well as *Qardhul Hasan and* other benevolent funds. The results of this research are intended to encourage Islamic bank management in both countries to pay more attention to and improve the quality of their annual reports.

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