



Comparative Analysis on Sharia Governance in Islamic Non-Profit Organizations across Indonesia, Malaysia and Brunei Darussalam

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Abstract. This study examines the governance practices of Islamic non-profit organizations in Indonesia, Malaysia, and Brunei Darussalam. The thorough examination is conducted through a framework developed based on the standards set by the Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as well as the core principles of zakat and waqf. A qualitative approach was carried out using content analysis methods from literature reviews, and then NVivo was used to collect, classify, map reports and analyse further about the topics. This study found that sharia NPO governance practices in Indonesia, Malaysia and Brunei Darussalam still need to be explained in detail, as well as several indicators. This study addresses previously unexplored issues, particularly regarding sharia-compliant Non-Profit Organizations (NPOs). In this regard, it pioneers research that examines and compares the governance frameworks of NPOs in Indonesia, Malaysia and Brunei Darussalam. The scope of this research focuses on regional areas with a global Muslim majority, namely Indonesia, Malaysia and Brunei Darussalam. Practitioners in the field of sharia-compliant NPOs can utilise this research as a reference and policy foundation. This action can help in advancing social initiatives cross-country level and can be a reference for establishing governance framework standards in sharia-based NPOs with practitioners and experts in the field.

Abstrak. Studi ini mengkaji praktik tata kelola organisasi nirlaba Islam di Indonesia, Malaysia, dan Brunei Darussalam. Observasi dan analisis menyeluruh dilakukan melalui kerangka kerja yang dikembangkan berdasarkan standar yang ditetapkan oleh Dewan Jasa Keuangan Islam (IFSB), Organisasi Akuntansi dan Audit untuk Lembaga Keuangan Islam (AAOIFI), serta prinsip-prinsip inti zakat dan wakaf. Pendekatan kualitatif dilakukan menggunakan metode analisis konten dari tinjauan literatur, NVivo digunakan untuk mengumpulkan, mengklasifikasikan, memetakan laporan, dan menganalisis tentang topik-topik tersebut. Studi ini menemukan bahwa praktik tata kelola NPO syariah di Indonesia, Malaysia, dan Brunei Darussalam masih perlu dijelaskan secara rinci, serta beberapa indikator. Studi ini membahas isu-isu yang belum dieksplorasi, khususnya mengenai Organisasi Nirlaba (NPO) yang sesuai syariah. Dalam hal ini, penelitian ini merintis penelitian yang mengkaji dan membandingkan kerangka tata kelola NPO di Indonesia,

Malaysia dan Brunei Darussalam. Cakupan penelitian ini berfokus pada wilayah regional dengan mayoritas Muslim global, yaitu Indonesia, Malaysia dan Brunei Darussalam. Praktisi di bidang NPO yang sesuai syariah dapat memanfaatkan penelitian ini sebagai referensi dan dasar kebijakan. Tindakan ini dapat membantu memajukan inisiatif sosial lintas negara dan dapat menjadi acuan untuk menetapkan standar kerangka tata kelola dalam organisasi nirlaba berbasis syariah bersama praktisi dan pakar di bidang tersebut.

INTRODUCTION

Sharia governance acts as a comprehensive system ensuring Islamic Financial Institutions (IFIs) and other organizations follow Islamic law (sharia) principles (Bank Negara Malaysia, 2019). Sharia governance is a system with several key features. These include setting up a sharia board, controlling activities for sharia compliance, implementing sharia approved policies, and following ethical principles.

The sharia financial sector has demonstrated that most sharia financial institutions have established efficient sharia governance especially regarding audit mechanisms, resulting in favourable progress toward enhancing sharia governance within these institutions (Arsyianti and Fitri, 2022). The sharia governance guidelines serve as instruments tailored to address the distinct requirements of the Islamic financial sector. Presently, these guidelines are provided by regulatory bodies such as IFSB and AAOIFI. IFSB describes a sharia governance system as a series of institutional and organizational frameworks utilised by an Islamic financial institution to guarantee robust independent supervision of sharia compliance across all relevant structures and procedures called Guiding Principles for Sharia Governance Framework. Consists of 14 principles. On the other hand, AAOIFI and IFSB has established seven standards within the governance framework for Islamic Financial Institutions. However, the Islamic ecosystem extends beyond not only commercial finance but also includes social finance, through various Islamic social institutions.

According to a report by the World Bank and the Islamic Research and Training Institute (2016), Islamic social institutions are not merely religious entities but strategic instruments for achieving the Sustainable Development Goals (SDGs) via the mobilization of massive religious social capital. Moreover, literature in the discourse of Islamic social finance asserts that Islamic non-profit organizations (NPOs) operate under scope of Social Purpose Organizations with a dual mandate: ensuring sharia compliance while simultaneously creating social impact (Hassan and Lewis, 2014). In the context of Islamic NPOs, the entities encompass various forms within this ecosystem. There are three main entities with distinct functional specializations that are nonetheless integrated. Specifically philanthropic foundations such as *nazhir* and *amil*, alongside non-governmental organizations (NGOs) focused on social humanitarian efforts. Theoretically, Islamic NPOs are positioned as a primary pillar of the "Third Sector" within the Islamic economy, advocating for distributive justice through philanthropic instruments.

First, *amil* is defined as a zakat management institution (LPZ) possessing the legal and sharia legitimacy to perform intermediary functions between *muzakki* (donors) and *mustahik* (recipients). Additionally, *nazhir* acts as a social investment manager responsible for the management of waqf assets. *Nazhir* holds a crucial role in maintaining the perpetuity of asset benefits and converting non-productive assets into sustainable productive waqf (Pitchay et al., 2014). Meanwhile, Islamic Social Humanitarian NGOs function as non-governmental organizations with high flexibility in responding to humanitarian crises. Unlike *amil* and *nazhir*, which are bound by specific zakat or waqf regulations, these NGOs rely on voluntary funds such as *infaq* and *shodaqoh* for broader, cross-sectoral community empowerment programs (Kailani and Slama, 2019).

Despite the differences in the objects of the funds managed, these three entities are united by a commitment to non-profit such as promote social well-being and assist those in need. Along with social-

oriented principles that focused on *maslahah* (public welfare). As explained in the *maqasid al-shari'ah* paradigm, the primary objective of these organizations is not about profit maximization, but rather the protection of faith, life, intellect, lineage, and property (Hassan and Lewis, 2014). The evolution of Islamic NPOs currently demonstrates a significant shift from their traditional roles as emergency relief providers to comprehensive development agents. These institutions are increasingly engaged in broader development initiatives, encompassing sectors such as education, healthcare, as well as community socio-economic empowerment.

According to Arshad et al. (2013), this diversification of activities aims to address multidimensional poverty through human capital investment and the provision of social infrastructure. Moreover, involvement in these long-term development projects reflects the actualization of *maqasid al-shari'ah* principles, wherein the organizational focus transitions from short-term assistance toward the creation of sustainable public welfare (*maslahah*). Consequently, Islamic NPOs now function as a crucial social safety net. However, the expansion of these activities brings the logical consequence of increasingly complex governance and accountability demands. Given that each initiative whether in education or economic empowerment, possesses distinct risk profiles and operational characteristics, hence for specific regulatory frameworks are required for each program type.

Furthermore, research in the *Journal of Islamic Accounting and Business Research* emphasizes that Islamic NPOs face challenges in balancing spiritual accountability (*taklif*) with secular managerial accountability to satisfy the expectations of heterogeneous stakeholders (Yasmin et al., 2014). This necessitates reporting mechanisms that are not only financially transparent but also capable of demonstrating qualitative social impacts. Coupled with the pressures of digitalization, these organizations must adopt more sophisticated governance standards to mitigate information asymmetry and ensure that all managed funds remain aligned with both humanitarian mandates and sharia compliance (Arshad et al., 2013).

Moreover, global trends indicate a management convergence where Islamic NPOs are beginning to adopt Good Corporate Governance (GCG) standards and professional risk management to mitigate information asymmetry between donors and managers (BAZNAS, 2021). Notably, Islamic NPOs focused on Islamic social welfare and humanitarian efforts must strictly follow sharia rules and ethical guidelines, particularly in managing and distributing funds. Based on research indicates that the effectiveness of *amil* is currently measured through the transparency and accountability of its governance (Huda et al. 2014). Considering all of these factors, sharia governance is especially important. It ensures their activities, such as fundraising and distribution to those in need, follow sharia principles and actually help the intended recipient (Report National Committee on Governance Policy Brunei Darussalaam, 2023).

Recently, there has been a global project named The International Reporting for Non-Profit Organizations (IFR4NPO) initiated and coordinated by Humentum and CIPFA (Chartered Institute of Public Finance and Accountancy). This five-year project aims to develop the first-ever international financial reporting guidance for non-profit organizations. The guidance called INPAG (International Non-Profit Accounting Guidance), due to be published in 2025, will apply to the sector-specific aspect of the annual general-purpose financial reports of non-profit organizations.

The implementation of good governance practices within the NPOs/NGOs sector continues to face significant structural barriers. Referring to the findings of Nawawi (2024) presented at the Japan-Malaysia Baitul Maal Conference, the primary issue is in non-holistic compliance training. Staff development programs frequently focus solely on technical and administrative aspects, failing to comprehensively integrate compliance values into the organizational culture. Additionally, there are inconsistencies in the mechanisms for monitoring, reporting, and the enforcement of penalties. Without a consistent monitoring system and stringent penalties for non-compliance, governance standards tend to become merely "paper-

based" formalities rather than functional operational guidelines.

The other challenge is closely related to the quality of human resources, specifically regarding issues of competency as well as ethical and moral compasses. Within the context of Islamic NPOs, staff members are expected not only to possess managerial proficiency but also to maintain moral integrity aligned with sharia principles. Moreover, the competency gap between technical financial management expertise and a profound understanding of zakat and waqf jurisprudence (*fiqh*) frequently creates risks of mismanagement. This issue is further complicated by the fact that current global standards, such as the International Non-Profit Accounting Guidance (INPAG), have not yet been able to accommodate the specific needs of Islamic NPOs. Although INPAG provides an international reporting framework, the guidance does not yet cover the sharia compliance aspects that form the fundamental core of operations for institutions such as *amil* and *nazhir* (Chartered Institute of Public Finance and Accountancy, 2022).

Coupled with the limitations of these international standards, Islamic NPOs face a dilemma in balancing global professional standards with unique sharia obligations. Furthermore, the absence of specific regulations to bridge secular non-profit standards with sharia governance requirements can trigger uncertainty in the reporting of socio-religious assets. Collectively, these challenges ranging from partial training and weak rule enforcement to the limitations of global standards, emphasise the necessity of developing a more comprehensive governance framework capable of fully integrating modern accountability standards with sharia principles in their entirety.

The exploration of sharia governance within NPOs has attracted considerable interest, mainly in countries with a majority Muslim population in Southeast Asia, such as Indonesia, Malaysia and Brunei Darussalam, which are more likely to have established Islamic NPOs (Aljunied, 2019). In Malaysia, various empirical investigations have recently investigated governance matters concerning sharia-based NPOs, encompassing models of sharia governance, reporting frameworks, governance practices, and transparency (Zakaria, 2023). However, similar attention has yet to be directed towards these issues in Indonesia. One notable area of research has focused on the significance of an integrated reporting framework, which can serve as a potent tool for effectively conveying the vision and mission of sharia-based NPOs (Ramli et al., 2018). Recent cases of mismanaged funds in Islamic NPOs across Indonesia, Malaysia and Brunei Darussalam highlight the need for stronger regulations and better governance practices (Asrori et al., 2020). Even though Indonesia, Malaysia and Brunei Darussalam have oversight measures for Islamic NPOs, there's a lack of clear and consistent regulations and sharia governance guidelines specifically designed for these organizations' unique needs (Lokman et al., 2023). Consequently, there is an urgent need to bridge the gap between global professional standards and unique sharia requirements to ensure the accountability of these socio-religious institutions.

The objective of this study is to conduct a thorough cross-country comparison analysis of current sharia governance practices in Islamic NPOs in Indonesia, Malaysia and Brunei Darussalam. This paper is organised as follows; Section 1 provides the introduction of the study. Subsequently, Section 2, this chapter begins with a discussion of the literature review related to Islamic non-profit organizations. The research methodology will be presented in the following section. Then, Section 4 elaborates on the discussion of the findings. The final section concludes the study and provides insightful contributions and the significance of this study.

LITERATURE REVIEW

Social Intermediary Function

Non-profit organizations (NPOs) take the role of intermediaries in managing social finance where the public administration and governance environment is supposed to be the most desired accountability. In regard to managing zero required return money, the management is tempted to misuse the fund, therefore, performance analysis is recommended. Hence, governance is needed (Benjamin, 2010). Governance is required even in social services (Asad and Le Dantec, 2019) as conflicts and disputes are prone to occur internally and externally or between internal and external parties. Of course, governance also is required in NPOs where community development projects involve multiple stakeholders (Vasconcellos and Sobrinho, 2015). Once the NPOs fails to present the governance, it may result in declining society trustworthiness and increasing the cost of operation to regain public trust (Enjolras, 2008).

In accordance with sharia, NPOs who run the operation based on Islamic sharia can refer to many standards and procedures of governance. Some standards set up by The International Financial Services Board (IFSB), The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), World Zakat and Waqf Forum (WZWF) and governments in the Muslim majority countries such as Malaysia.

Sharia Governance

Sharia governance is a system operating at the institutional, industry and national levels to ensure that Islamic Financial Institutions (IFIs) engage solely in activities, products, and services that adhere to sharia principles (Chowdhury et al., 2015). Sharia governance is a specialized governance framework designed for financial institutions, including sharia-based NPOs, that provide products and services in line with Islamic principles. Essentially, sharia governance is a form of good corporate governance (GCG) with the primary role of ensuring sharia compliance in all operations of Islamic banks. To fulfill this role, the sharia governance system must incorporate three key elements: a Sharia Supervisory Board (in Bahasa called *Dewan Pengawas Syariah*, abbreviated as DPS), sharia compliance assessment, and sharia review procedures (Rama, 2014).

According to the United Nations definition, an NPO refers to a group of citizens who voluntarily form an organization without the aim of seeking profit, and can operate at various levels, from local to global. Othman and Ameer (2014) emphasized that NPOs do not have shareholders or profit goals, so their primary orientation is social value. In this context, accountability is a crucial element in convincing donors and volunteers of the organization's effectiveness.

METHOD

Qualitative Content Analysis

Qualitative content analysis was adopted as the overarching qualitative research design because it offers a systematic yet flexible approach for interpreting the meaning of textual data in context. Hsieh and Shannon (2005) define qualitative content analysis as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns”, emphasizing both methodological rigor and closeness to participants’ language. Similarly, Elo et al. (2014) describe qualitative content analysis as an inductive or deductive process organized in three phases; preparation, organizing, and reporting, aimed at building a conceptual understanding of a phenomenon.

Krippendorff (2004) defines content analysis as a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use. These two domains text and context are logically independent; thus, researchers draw conclusions from one independent domain (text) to the other (context). Consequently, content analysis is established as a research technique for making replicable and valid inferences from data to their specific contexts. These seminal articles position content analysis not merely as a technical coding procedure but as a full qualitative design in which research questions, sampling, data collection, and analysis are all aligned toward developing rich, contextualized descriptions and interpretations of human experience. Furthermore, Krippendorff (2004) explains that analytical constructs can be derived from (1) existing theories or practices, (2) expert experience or knowledge, and (3) prior research. In qualitative content analysis, data are categorized using categories generated inductively from the data, which in most instances are applied through a rigorous 'close reading' of the material (Morgan, 1993).

Effective management of qualitative data can yield valuable insights despite their often being complex (Miles and Huberman, 1994). Content analysis is a method used in research to draw reliable and valid conclusions from texts (or other significant materials) about their intended contexts of use. As a method of research, content analysis offers fresh perspectives, enhances a researcher's comprehension of specific phenomena, or guides practical decision-making. It is regarded as a scientific instrument. The inferential aspect of content analysis should now be evident. Inferences drawn from content analysis might be implicit during the human coding process or integrated into analytical methods, such as dictionaries in computer-assisted text analyses or established indices (Krippendorff, 2004).

The study employed NVivo to synthesize the annual reports by identifying and highlighting key data content based on the sharia audit framework process. NVivo is a computer software program that allows researchers to manage, analyse, and visualise qualitative data and documents systematically and individually. It is user-friendly for researchers who are familiar with coding and qualitative data analysis strategies. This software program is a helpful tool for sorting out, classifying, organising, and analysing qualitative data. It has also been proved that using computer-assisted qualitative data analysis software (CAQDAS) can enhance the quality of the analysis (Dhakal, 2022). CAQDAS programs assist qualitative researchers in collecting, sorting, classifying, organising, analysing, visualising, and reporting data. However, this cannot replace the need for the human researcher, they assist the researcher by offering tools and features to organise and structure the data collected. As described, the coding process is shown in Figure 1.

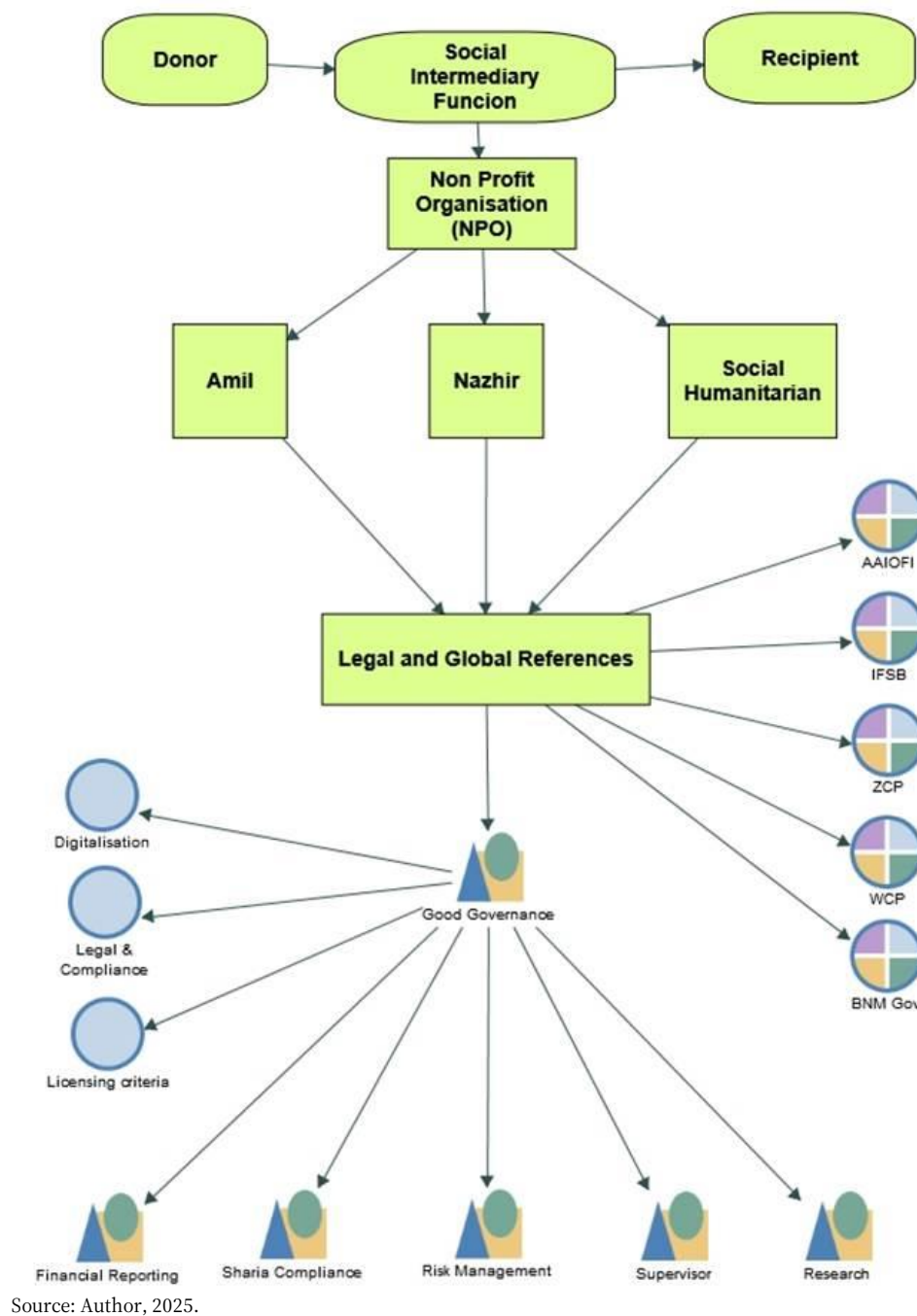


Figure 1 Coding process with NVivo in the research of Comparative Analysis on Sharia Governance in Islamic Non-Profit Organizations across Indonesia, Malaysia and Brunei Darussalam

Data and Sample

The selection of Indonesia, Malaysia and Brunei Darussalam as research samples is based on their distinct strengths within the Islamic economic and social landscape of Southeast Asia. Indonesia represents a powerhouse of philanthropy. According to the 2023 World Giving Index survey (Charities Aid Foundations, 2023), Indonesia scored 68 points and ranked first as the most generous country for the sixth year. Many Muslims donate to charities every day. The reputation of NPOs is very important. The downfall of social organizations and NPOs means that Indonesian citizens need to build stronger trust from the beginning.

The trust in NPOs that has been built so far has not been based on a solid foundation of standard accountability and regulation for NPOs.

Malaysia is included due to its exemplary governance, the second most populous country in Southeast Asia, with a population of 21,787 million, accounting for 63% of the total population. According to the World Islamic Index survey, Malaysia also ranks first in terms of governance, ahead of Saudi Arabia and Indonesia. This governance shows that Malaysia is the country with the strongest economic ecosystem (DinarStandard, 2023). Brunei Darussalam has a Muslim population of 366,092,000. Although there are not as many Muslims as in Indonesia or Malaysia.

The country of Brunei Darussalam is an Islamic state in the form of a sultanate. Brunei Darussalam's GDP per capita is also above the world average, with a GDP of \$37,152, ranking fourth after Qatar, the United Arab Emirates, and Kuwait (DinarStandard, 2023). Thereby offering a unique model of economic prosperity.

This research selects one NPO from each country to represent the broader condition of NPOs from the relevant country.

a. Indonesia: Dompot Dhuafa

Dompot Dhuafa Republika Foundation also known as Dompot Dhuafa, is an Islamic philanthropic institution and humanitarian institution that works to empower the people and humanity. Empowerment is carried out through the management of zakat, infaq, and waqf (ZISWAF) funds, as well as other social funds, which are managed in a modern and trustworthy manner. In its management, Dompot Dhuafa prioritises the concept of compassion or love as the root of the philanthropic movement. It prioritises five pillar programs, namely Health, Education, Economics, Social, and Da'wah and Culture.

b. Malaysia: MERCY Malaysia

Malaysian Medical Relief Society, better known today as MERCY Malaysia. MERCY Malaysia is an international non-profit organization focused on providing medical relief, sustainable health-related development and risk reduction activities for vulnerable communities in both crisis and non-crisis situations. MERCY has five core values, that is mutual respect, equity and inclusivity, resilience, commitment, yearn to serve.

c. Brunei Darussalam: WeCare

WeCare or also known as Kami Prihatin is a humanitarian non-government organization (NGO) registered under the Registry of Society, Police Headquarter, Brunei Darussalam. It aims to provide both local and international humanitarian aid to those in need. Brunei Darussalam has a voluntary national report which can be accessed generally, however, this report explains more about the SDGs in the form of targets and achievements which are less relevant to this research. Therefore, WeCare data is taken from the official WeCare website, namely <https://www.wecare.org.bn/about-foundation/> because official WeCare reports are not shared publicly.

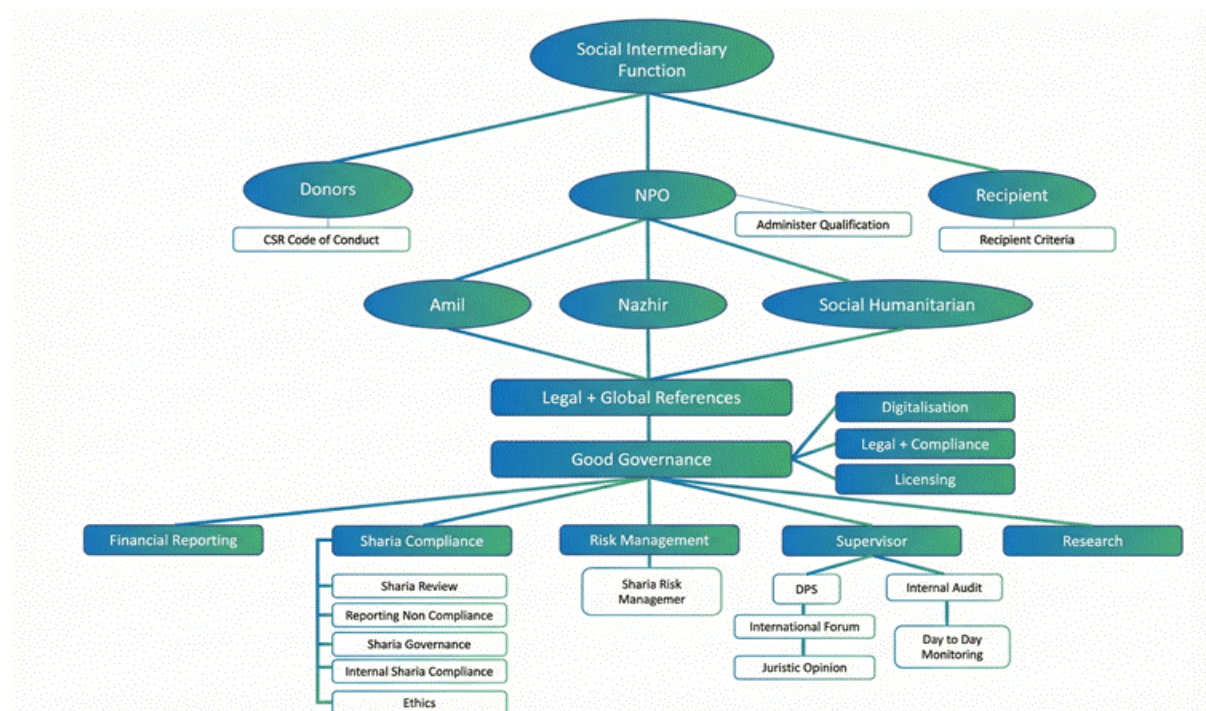
These specific NPOs were chosen primarily because they offer the most comprehensive disclosure of operational and financial data in their respective jurisdictions. In Indonesia, Dompot Dhuafa serves as a benchmark for modern Islamic philanthropy through its transparent management of ZISWAF funds. Similarly, MERCY Malaysia was selected for its high level of accountability in international medical relief and its clearly defined core values of equity and resilience. While public reporting in Brunei Darussalam is often limited to broad SDG targets, WeCare stands out as the most viable sample due to the detailed organizational disclosures available on its official platform. Consequently, these three institutions provide the most robust data set available to reflect the broader NPO conditions within the region.

RESULTS AND DISCUSSION

Sharia Governance

Efforts to optimize the Islamic social finance sector require a governance foundation, same as with the commercial sharia sector, which has successfully established efficient sharia governance through robust audit mechanisms and regulatory frameworks provided by international bodies such as the IFSB and AAOIFI. Although Islamic NPOs serve as strategic instruments for achieving the Sustainable Development Goals (SDGs) through the strategic deployment of faith-based social assets, their operational reality remains overshadowed by severe structural challenges.

The results of this comprehensive synthesis, by utilizing NVivo, ensures that the transition from the raw text of global standards to these specific analytical constructs is both valid and replicable, providing a solid foundation for evaluating the disclosure practices of the selected NPOs. This framework encompasses the core pillars of sharia accountability and social intermediary functions, providing a structured pathway for Islamic NPOs to bridge the gap between global professional standards and unique sharia requirements, as detailed in Figure 2 below.



Source: Summary processed by the authors, 2025.

Figure 2 Keywords sharia Non-Profit Organizations (NPO) governance framework

The conceptual framework illustrated in Figure 2 represents a synthesis of key attributes defining Sharia Governance for Non-Profit Organizations (NPOs). This framework was developed using NVivo content analysis, applying a rigorous coding process to extract core keywords from authoritative global regulatory and sharia standards. The primary sources analyzed include the International Financial Services Board (IFSB) Standards, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Waqf Core Principles (WCP), the Zakat Core Principles (ZCP), and the Sharia Governance Framework of Bank Negara Malaysia (BNM) 2019. The narrative of the framework is structured as follows:

- Social Intermediary Function at the apex, the diagram establishes the NPO's role as a bridge between Donors (governed by CSR codes of conduct) and Recipients (governed by specific

eligibility criteria).

- Organizational Categorization within the NPO sphere, the analysis identifies three primary types: *Amil* (Zakat-based), *Nazhir* (Waqf-based), and Social Humanitarian entities.
- The Nexus of Good Governance, the core of the framework focused on Good Governance, which is supported by Legal and Global References. This ensures that the NPO operates not only under domestic law but also aligns with international best practices such as Digitalization, Licensing, and Compliance.
- Pillars of Sharia Accountability: The content analysis identified five critical pillars essential for robust Sharia Governance:
 1. Financial Reporting: Ensuring transparency in the utilization of social funds.
 2. Sharia Compliance: Encompassing sharia reviews, ethics, and the reporting of non-compliance.
 3. Risk Management: Specifically focusing on sharia-related risk mitigation.
 4. Supervision: Highlighting the role of the Sharia Supervisory Board (DPS), internal audits, and juristic opinions in day-to-day monitoring.
 5. Research: Driving continuous improvement and innovation within the philanthropic sector.

The International Financial Services Board (IFSB)

IFSB acts as a global organization that sets standards for regulatory and supervisory bodies. Their primary goal is to ensure a sound and stable Islamic financial services industry, encompassing not just banking, but also capital markets and insurance. To achieve this, the IFSB actively develops new standards and revises existing international ones to ensure alignment with sharia principles. Additionally, they recommend implementation standards, ultimately fostering a transparent and prudent Islamic financial services industry (IFSB, 2022).

The IFSB defines the sharia governance system as basically a way for Islamic financial institutions to make sure they follow sharia rules (Abd Aziz and Abd Ghadas, 2021). It involves setting up different groups and procedures to independently check that everything the institution does is sharia-compliant.

1. Juristic opinion: Authoritative sharia rulings on Islamic finance matters issued by qualified sharia boards.
2. Day-to-day monitoring: Internal sharia compliance teams informing staff about new sharia pronouncements and ensuring daily operations align with sharia.
3. Reporting non-compliance: Internal sharia reviews or audits check for any problems with following sharia rules. If they find any issues, they need to be documented, fixed, and prevented from happening again.
4. Sharia review: Annual sharia compliance review or audit ensures that the internal sharia compliance reviews are conducted properly and their findings are considered by the sharia boards.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

The Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI, is a non-profit organization founded in 1991 by key industry stakeholders based in Bahrain. AAOIFI has 161 active institutional members, including the general assembly, Board of Trustees (BOT), Public Interest Monitoring Consultative Committee (PIMCC), technical council, and secretariat. AAOIFI also does some secondary activities, including capacity building, advocacy and awareness, technical bulletin - JPIFA, and advisory and assurance services.

Since its founding in 1991, AAOIFI has strengthened its position as a leading global Islamic infrastructure organization leading the Islamic finance industry by developing standards in five interrelated areas. In addition, AAOIFI also increases human talent and awareness in the industry. By the end of December 2022, AAOIFI has more than 119 standards and technical applications in five areas, including sharia, accounting,

auditing, governance and ethics (AAOIFI, 2022). The AAOIFI has issued seven governance standards for Islamic Financial Institutions (IFIs). These standards cover various aspects, including: 1) Sharia Supervisory Board: Appointment, Composition, and Report, 2) Sharia Review, 3) Internal Sharia Review, 4) Audit & Governance Committee for IFIs, 5) Independence of Sharia Supervisory Boards, 6) Statement on Governance Principles for IFIs, 7) Corporate Social Responsibility Conduct and Disclosure for IFIs (Abd Aziz and Abd Ghadas, 2021).

Waqf Core Principles (WCP)

WCP is a guiding document that can be used as a reference for policymakers in managing waqf in a legal or government system. The WCP provides a brief overview of the position and role of the waqf management and supervision system in economic development and a methodological approach to establishing the main principles of the waqf management and supervision system. This document establishes operational and supervisory standards for the waqf sector with a level of prudence that is equivalent to other financial sectors. These operational standards are designed to take into account risks to manage assets and to optimise benefits for society. Apart from that, the WCP also provides a clear and standardised system regarding the supporting elements of the waqf system that applies worldwide (BI et al., 2018).

These waqf core principles are also established to ensure compatibility and mutual recognition of other financial sector prudential standards, as well as current regulatory standards that emphasise governance aspects. WCP includes 29 core principles with 4 levels of compliance, namely complaints, largely compliant, materially non-compliance, and non-compliance. This document uses the Basel Core Principles (BCP) for comparison. The WCP is created by comparing established financial regulations with the basic nature of waqf management and assessing the relevance of regulatory elements to possible regulations for waqf management and supervision.

Zakat Core Principle (ZCP)

ZCP is a framework used to establish minimum standards for administering and collecting zakat effectively. This document was introduced in 2016 by the National Zakat Amil Agency of the Republic of Indonesia (BAZNAS) and the Central Bank of the Republic of Indonesia, in collaboration with the Islamic Research and Training Institute (IRTI – IDB), as well as representatives from countries that have a zakat system such as Saudi Arabia, Malaysia, India, Pakistan, South Africa, etc. (Beik et al., 2016).

ZCP is a document containing 18 principles that regulate 6 main aspects or dimensions of zakat management. These 6 dimensions are the legal basis, zakat supervision, zakat governance, intermediation function, risk management and sharia conformity. The structure of the Zakat Basic Principles adopts a modern financial regulatory structure, referring to international banking standards that apply worldwide, while making necessary adjustments in certain aspects that reflect the unique characteristics of zakat administration that are not found in the conventional financial system (Beik et al., 2016).

Sharia Governance Framework of Bank Negara Malaysia (BNM) 2019

Bank Negara Malaysia (BNM) issued the Sharia Governance Framework (SGF) to set clear expectations for Islamic Financial Institutions' (IFIs) sharia practices. This framework aims to achieve the objectives, such as ensure all IFI operations follow sharia principles, guide IFIs' board, sharia committee, and management on their sharia responsibilities; define the roles of sharia review, audit, risk management, sharia compliance and research (Abd Aziz and Abd Ghadas, 2021).

Current Practices Sharia Governance in Islamic NPOs

In Indonesia, Malaysia and Brunei Darussalam, the NPOs are run as a social intermediary function supporting the government in tackling social humanitarian problems. NPOs are generally funded through donations from parties that share the same organization's commitment to its charitable mission (Rosman et

al., 2024). The fund is disbursed based on their original purpose, either for *mustahik* or productive waqf for business. In contrast, the profit is redistributed among the *mauquf 'alaih* (recipient of waqf benefit fund), or helping brothers and sisters throughout the world who are in need.

Islamic NPOs, specifically, comprise *amil*, the zakat administrator; *nazhir*, the waqf organiser; and social humanitarian organization, which is a specific organization concerned with enhancing well-being issues. Thus, the Islamic NPOs are entitled to sharia compliance disclosure (Ab Ghani et al., 2023). The Sharia Governance Framework (SGF) issued by Bank Negara Malaysia (BNM) can be a reference. However, it is limited to Islamic Financial Institutions. Among the sharia-compliant companies, the sharia-related disclosure rate is low, 13-22% (Azmi et al., 2016). With less pressure from stakeholders, the country, which has a secretive culture, portrays the possible reasons behind the low level of sharia-related disclosures (Maali et al., 2006; Haniffa and Hudaib, 2007).

Waqf Core Principles and Zakat Core Principles published by the Islamic Development Bank (IsDB), Bank Indonesia (BI), Badan Wakaf Indonesia (BWI), and Badan Amil Zakat Indonesia (BAZNAS) provide good governance guidelines for *nazhir* and *amil* in collecting waqf and zakat funds and distributing them accordingly how the risk management and abuse of waqf services are elaborated in the principles for *nazhir* and *amil* to have good governance.

The discussion of current sharia governance practices within the selected Islamic NPOs, namely Dompot Dhuafa, MERCY Malaysia, and WeCare, is conducted through a systematic content analysis utilizing NVivo software. This analysis is guided by a thematic framework of keywords synthesized from Figure 2. By mapping the disclosure data from the official reports and digital platforms of these institutions against core pillars, this section evaluates the degree of alignment between organizational transparency practices within cross-country comparison. Therefore, the current practices of good governance are summarised in the following table.

Table 1 Comparison of current sharia governance practices in Indonesia, Malaysia and Brunei Darussalam

Indicators	Dompot Dhuafa (Indonesia)	Mercy (Malaysia)	WeCare (Brunei Darussalam)
Digitalisation	Launched Website https://digital.dompethuafa.org and Dompot Dhuafa apps which can support our goodness as well as worship. With the donation feature, people can contribute to diverse forms of kindness, including charitable donations, zakat, waqf, specific humanitarian funds, and even payments for Qurban.	Launched website https://www.mercy.org.my , which provides integrated massive information about reports, documentation, contact persons, info, and all of the programs of MERCY, which is available to all donors or the public. In addition, there is a feature for donating and paying zakat online.	Mobile application Telegram for Gov. bn. In 2022, during the 16th National Youth Celebration, Sultan Yang Dipertuan of Brunei launched the 'Mengalinga App' application or platform, which provides integrated information on volunteer registration, NGO organization offers, and a directory for NGOs in Brunei.

Table 1 Comparison of current sharia governance practices in Indonesia, Malaysia and Brunei Darussalam (continue)

Indicators	Dompot Dhuafa (Indonesia)	Mercy (Malaysia)	WeCare (Brunei Darussalam)
Legal and Compliance	Dompot Dhuafa has its own Legal and Compliance Division within the Business and Operational Support Directory.	In Malaysia, MERCY has a Governance, Risk and Compliance Directory.	Brunei Darussalam has an advisory board that heads all the areas.
Licensing	Dompot Dhuafa obtained licensing as the Amil Zakat Board at the National level through a Decree of the Minister of Religion of the Republic of Indonesia No. 439 of 2001, regarding the strengthening of Dompot Dhuafa as a National Amil Zakat Board.	In Malaysia, MERCY Malaysia prioritises good governance to ensure transparency and accountability. Governed by the Societies Act (1966) and the Constitution of MERCY Malaysia, as a registered society, they adhere to these regulations.	In Brunei Darussalam, WeCare has a permit in accordance with the Registrar of Society Brunei Darussalam [The Societies Act pursuant to subsection (3) Chapter 8 of the Societies Act (Chapter 203)].
Financial Reporting and Audit	In Indonesia, Dompot Dhuafa has published its financial report about collection and distribution on its website, which can be accessed by all donors. Moreover, their annual report has detailed the result of an independent auditors report.	In Malaysia, MERCY publishes a detailed financial report about the collection and distribution of its funding. It adheres to the Malaysian Financial Reporting and the mandates of the Societies Act, 1996 in Malaysia.	In Brunei Darussalam, WeCare Brunei Financial Reporting in Brunei Darussalam is mandatory according to Section 22 (1) of the Societies Act (Chapter 203). A company is required to appoint an auditor and undergo auditing of its accounts, but the report is not currently accessible to the public.
Supervisory	In Indonesia, supervisory activities for Dompot Dhuafa are carried out by the Sharia Supervisory Board (DPS).	Malaysia and Brunei Darussalam do not mention in their reports and websites related to the sharia forum or such as the sharia supervisory board.	

Table 1 Comparison of current sharia governance practices in Indonesia, Malaysia and Brunei Darussalam (continue)

Indicators	Dompot Dhuafa (Indonesia)	Mercy (Malaysia)	WeCare (Brunei Darussalam)
Sharia Compliance	In Indonesia, Dompot Dhuafa has a Sharia Supervisory Board, which consists of three experts in various fields. DPS activities include archives and documentation, meetings and sharing, value transfer and consultation, knowledge management, sharia compliance and network management.	In Malaysia, MERCY has a sharia advisor for ISF initiatives who has experience in the field.	In Brunei Darussalam itself, WeCare does not mention sharia reviews on its website.
Risk Management	In Indonesia, Dompot Dhuafa Indonesia has a Risk Management Committee in its organizational structure. It serves to control all forms of risk, such as risk of misallocation mitigation, reputation risk and lack of confidence, and operational and sharia-compliant risk, as it is mandatory to adopt the standard Zakat Core Principle.	In Malaysia, MERCY Malaysia also has a Director of Governance Risk and Compliance to monitor governance and policy, compliance and risk management, etc. Additionally, aligned with the Humanitarian Development Nexus (HDN) approach, all of MERCY Malaysia's initiatives in response, recovery, preparedness, and resilience planning encompass the comprehensive aspects of disaster risk reduction and management (DRRM) from start to finish.	In Brunei Darussalam, WeCare have yet to explain in their report about sharia risk management

Source: Research finding by authors, 2025 (processed data).

CONCLUSION

This study examines the cross-country comparison of governance practices of Islamic non-profit organizations in Indonesia, Malaysia and Brunei Darussalam. According to the author's content analysis method from NVivo and literature reviews, there are still indicators that are not yet available. For example, the CSR Code of Conduct indicators for NPOs in the three countries are still not mentioned in their reports. There are also several other indicators for which there is still no detailed explanation. Especially for the country of Brunei Darussalam, where data related to sharia NPOs are still very limited. This research

finding also indicates the existence of diverse regulations and standards across the country, so that it might be limited to applicable and limit broader impact driven by the different priorities among each country.

The comparative analysis of Indonesia, Malaysia and Brunei Darussalam yields critical implications for both policymakers and NPO practitioners, emphasizing the urgent necessity for a standardized and comprehensive sharia governance disclosure framework. For practitioners, there is a clear mandate to move beyond basic financial transparency by enriching institutional reports with explicit details regarding their sharia governance involvement. Specifically focusing on the pillars of sharia risk management, internal sharia audits, and the operational impact of Sharia Supervisory Board (DPS) oversight. Policymakers, on the other hand, should leverage these findings to develop formal reporting guidelines that harmonize domestic regulations with global benchmarks such as the IFSB and AAOIFI standards. Such enhancements in reporting are not merely administrative requirements; they are essential for fortifying institutional trust among donors and ensuring the resilience of the Islamic philanthropic ecosystem against the risks of non-compliance and reputational damage. Lastly, several indicators that have not been identified need to be explored more. For further research, the effectiveness of existing frameworks should be explored and guidance or an index for international governance regarding sharia-compliant indicators can be developed.

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