



RESEARCH ARTICLE

Standardization of Third-Sector Organizations through Regulatory Frameworks in Malaysia

Nur Ezan Rahmat^{1*}, Mohd Hisham Mahamud², Muhammad Umar Razak³, Maruf Billah⁴

² Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Kelantan, Malaysia

^{1,3,4} Faculty of Law, Universiti Teknologi MARA (UiTM), Shah Alam, Malaysia

| ARTICLE INFO | ABSTRACT |
|---|--|
| <p>Received: Apr 24, 2024</p> <p>Accepted: Jul 4, 2024</p> <p>Keywords</p> <p>Third-sector regulations Multiple regulators Regulatory inconsistency</p> <p>*Corresponding Author: nurezan@uitm.edu.my</p> | <p>The nature of the third sector is a sector that needs to show that they are accountable to their stakeholders. Consequently, reporting is acknowledged as a medium to showcase accountability. Different agencies regulate Malaysian third-sector organizations in Malaysia based on their legal forms and varying activities or functions. This makes the reporting by the third sector non-uniform and has various forms and characteristics according to the organization's needs. Nevertheless, can the different rules governing organizations with the same objective effectively provide the accountability information the stakeholders need? This study provides an overview of the Malaysian third-sector regulatory landscape, examines the operational challenges caused by the multiple regulator environments, and compares the reporting regulations of the third sector in Malaysia and other countries. The results of this study give the impression that the reporting regulation of the third sector in Malaysia requires a uniform legal framework so that this sector can be regulated effectively for the sake of the stakeholders. This study benefits various stakeholders and third-sector organizations. It becomes a benchmark for a more systematic and uniform reporting law for a more dynamic and competitive future of third-sector study.</p> |

INTRODUCTION

Amidst the global prominence of the COVID-19 pandemic, there has been a rise in the establishment of third-sector organizations (TSOs), such as nongovernmental organizations, societies, foundations, or charitable organizations. These TSOs aim to support the government in providing social services. These organizations secure substantial funding from diverse external sources to aid the underprivileged and susceptible members of society. Although these organizations do not have profit as their primary goal and are highly regarded by society, they are susceptible to public scrutiny regarding their accountability and transparency in their operations. Hence, TSOs employ diverse strategies to exhibit responsibility and openness to their stakeholders, with one of the efficacious approaches being meticulous accounting and comprehensive financial reporting. Nevertheless, the lack of consistency in reporting among TSOs elicited diverse responses from stakeholders, primarily aimed at acquiring essential information and making comparisons before deciding whether to collaborate with the TSOs.

In Malaysia, TSOs may choose to be registered under seven statutory bodies. According to data, more than 80,000 organizations are registered as TSOs in Malaysia (as of December 31, 2021). From this amount, of the more than 79,000 registered organizations, almost 75% are registered with the Registrar of Societies (ROS), 11.1% and 10.5% of organizations are registered with the Sports

associations registered with the Sports Commissioner (SCO), and Youth associations registered with the Registrar of Youth Societies (ROY) respectively. In addition, 2.55% of all registered Malaysian TSOs are companies limited by guarantee (CLBG) registered with the Companies Commission of Malaysia (known by the Malay acronym SSM), and trade unions make up less than 1% of the third sector population. The combined number of trusts and foundations registered with the Legal Affairs Division of the Prime Minister's Department (BHEUU) and charitable foundations registered with the Labuan Financial Services Authority (LFSA) is less than half a per cent. Depending on the circumstances, the seven agencies that regulate these TSOs have different jurisdictions following the purpose and goals of the TSO concerned.

Consequently, various TSOs are subject to distinct regulations and laws. The presence of multiple regulatory bodies overseeing TSOs in Malaysia can potentially result in administrative challenges, particularly if there is a lack of consistency in the supervision and regulation of the sector. Various legal structures may be suitable or necessary for distinct activities. However, within the scope of this study, the concern does not primarily revolve around the specific legal structure itself, but rather focuses on the regulatory requirements for reporting by the TSO. The lack of consistency in regulatory reporting, particularly regarding accountability information, may result in significant uncertainty among third-sector practitioners, donors, and other stakeholders. This is particularly problematic when these individuals rely on the information provided by TSOs to make investment, contracting, and regulatory decisions. While it may be imperative to establish distinct regulations for various types of organizations, it is crucial to strive for consistency in reporting, particularly in terms of fundamental governing principles. This is essential to facilitate effective oversight, promote standardized procedures, ensure transparency, and uphold accountabilities for all parties involved. This measure could effectively address any potential legal or regulatory gaps, thereby reducing the risk of TSOs being exploited for illicit activities. According to Stigler's (1971) theory of public interest, regulation is essential to safeguard the public from potential dangers that result from the unequal distribution of information. Implementing mandatory reporting requirements would make it possible for data from the third sector to be accessible to the public, allowing stakeholders to examine it more closely (C. Cordery, 2013). This paper examines the reporting framework necessary for TSOs to enhance accountability to various stakeholders by implementing an efficient and standardized reporting system. This study employs a comparative approach, examining the TSO reporting laws in Asian countries and specifically in the UK, to determine the trajectory of the reporting system. The aim is to identify a suitable model that can be used as a reference to develop an integrated reporting system. This study will provide an analysis of the regulations governing TSOs in Malaysia. It will discuss relevant theoretical concepts, outline the methodology that will be employed, and present a comprehensive analysis. The study will conclude with a final discussion and a conclusive statement.

THE REVIEW OF THE LITERATURE

TSOs regulation in Malaysia

As per the provisions of articles 10(1)(b) and 10(1)(c) of the Malaysian constitution, every citizen is entitled to the rights of peaceful assembly and association formation, without the use of weapons. Regulation XIX: In 1869, Malaysia enacted the Suppression of Dangerous Societies Ordinance, which marked the initiation of the country's regulation of non-governmental and non-commercial organizations. This legislation was enacted in response to the recurrent conflicts arising from the activities of Chinese clan organizations, commonly referred to as "secret societies". The 1869 ordinance had limited impact on the regulation of secret societies; its main purpose was to merely record their existence (Cheng, 1972). The position of "Registrar of Society," responsible for the registration and oversight of societies, was established in 1913 following amendments. Every society in the Federation of Malaya must either register or seek exemption from registration under the extensively revised Societies Ordinance, enacted in 1949. In 1966, the Societies Act replaced the

Societies Ordinance by merging the Societies Ordinance from 1949 for the Federation of Malaya, the Societies Ordinance from 1957 for the State of Sarawak, and the Societies Ordinance from 1961 for the State of Sabah.

While many other Acts and Enactments regulate charities and charitable activities, the Societies Act only regulates associations (Ali & Hassan, 2017; Arshad et al., 2012); Kanval et al., 2024. The Trustee (Incorporation) Act (1952), which regulates trusts and foundations, and the Labuan Foundation Act (2010), which governs charitable foundations registered in the Labuan mid-shore financial center, are additional laws that apply to TSOs. Each state in Malaysia administers its waqf (Islamic trust) and Hindu endowment bodies, which are governed by distinct state-level legislation, in addition to the charitable and volunteer organizations mentioned above. As a result, the laws and regulations governing the third sector in Malaysia are disjointed and in need of rationalization (Ali & Hassan, 2017; Rashid et al., 2023); some of these laws have even been criticized for being oppressive and onerous (Arshad et al., 2012). However, efforts to watch over and control the operations of nongovernmental and civil society organizations have existed since the colonial era, so such claims are not out of the ordinary.

Public interest theory

According to the public interest theory of regulation, the primary purpose of governmental regulation is to protect and further the interests of the general population (Hantke-Domas, 2003). Arguments that are grounded in the public interest theory contend that regulation may increase charitable giving by increasing public confidence in the NPO sector. The public choice theory, on the other hand, maintains that the goal of regulators is to maximize political returns, "manage" relationships between the third sector and the government, and reduce the likelihood of regulatory capture. The public interest theory of regulation asserts that regulation is necessary to protect the public (Hantke-Domas, 2003) and deal effectively with substantive resource distribution problems (Chalmers et al., 2012; Christensen & Laegreid, 2006). This theory was developed by Hantke-Domas. The third sector, and especially charity regulation, acknowledges the existence of a donor- and funder-market (Cordery et al., 2017). As a result, Mayer and Wilson (2010) require charities to practice good governance, accountability, and transparency to remain compliant with this requirement. The primary function of charitable organizations is to remedy problems caused by inefficiencies in the market and the government by redistributing resources from donors and funders to the people who will benefit from those resources (Salamon, 1987). According to Chan et al.'s research from 2020, tax subsidies not only redistribute resources between activities but also from, for instance, rich people to poor people. Regulation in the public interest is meant to ensure that charitable organizations do not facilitate redistribution, which runs counter to the public interest.

Third sector reporting

The latest literature on TSOs reporting highlights the importance of transparency, accountability, and impact measurement. It emphasizes the need for standardized reporting frameworks to effectively communicate the social and environmental value created by TSOs. Researchers also explore the challenges and opportunities associated with adopting integrated reporting practices within the TSO, aiming to provide a comprehensive view of an organization's performance. Thus, TSOs must adhere to diverse national reporting standards, despite the growing global regulation they face. In Malaysia, it is necessary to conduct a comprehensive evaluation of all activities to ensure the implementation of effective administrative and monitoring systems, which are essential for establishing a fair and non-exploitative contribution. In the absence of sufficient supervision, there is a potential for issues related to integrity, transparency, and the misallocation of public funds. To regain the public's confidence in philanthropy, it is crucial to initially tackle the misappropriation of funds contributed by the public, as well as apprehensions regarding the absence of ethical standards and erosion of trust. Hence, the reliability of reporting from TSOs is vital for stakeholders to impartially assess the

TSOs they endorse and contribute to. There is a lack of comparable standards for TSOs as many TSOs engage in unique economic activities and transactions that differ from those found in the private or public sectors. Stakeholders and users of TSOs' financial information have distinct requirements compared to those in the private or public sectors when examining financial reporting in greater detail. Therefore, the issue of TSO financial reporting has been extensively discussed worldwide for a considerable period.

To address this deficiency, several jurisdictions have developed guidelines. The development of TSO-specific standards is currently ongoing. The project currently being undertaken by Humentum and The Chartered Institute of Public Finance and Accountancy (CIPFA) is called "International Financial Reporting for Non-Profit Organizations (IFR4NPO)". In 2016, the Financial Accounting Standards Board (FASB) revised its guidelines for the "Presentation of Financial Statements for Non-Profit Entities." These guidelines provide an initial reference for the TSOs reporting framework. The recommendations advocate for increased transparency for individuals, organizations, and entities that depend on TSO's financial statements to make significant decisions. The guidelines also afford SPOs the opportunity to revise their narratives in order to enhance their appeal to resource providers.

The benefits of having a uniform reporting standard for TSOs are amply stated in the argument above. The above-mentioned beneficial purpose can be achieved if a law could compel all reporting in that direction. The content analysis of TSOs' reporting has been the subject of numerous studies in numerous nations. There is flexibility in how to report, even though it is crucial to realize that in the majority of jurisdictions, reporting is either voluntary or mandatory (McConville & Cordery, 2018). However, in specific scenarios, most studies that research the reporting on TSOs were done in a regulated reporting setting, such as in the UK. Some relatively recent examples (which build on a body of work by these authors) include (Dhanani & Connolly, 2012) examination of reporting by 75 of the 104 largest UK charities in their Annual Reports.¹ and Annual Review². Hyndman and McConville (2016, 2018) explored the top 100 UK charities' performance reporting for 2010–2011, using Annual Reports, Annual Reviews and adding websites³. Some recent studies are cross-jurisdictional: McConville and Cordery (2018) applied a version of Hyndman and McConville (2016, 2018) framework in an exploratory analysis, using four case-study jurisdictions that represented different approaches to regulating performance reporting. They indicated more performance reporting and transparency in the UK, with its mandatory (but flexible) requirement for performance reporting. This was in contrast to the USA, Australia, and NZ, which had no regulatory requirement to report at that point. Martin et al. (2018), using a checklist but with a larger sample, explored the compelling case of UK versus Irish charities, having the exact performance reporting requirements (in the Charities SORP) but different regulators. Like McConville and Cordery, they found better practice in the UK, with its longer-established regulators and reporting framework. To conclude the studies mentioned above, McConville and Cordery (2022) indicate that increased regulation positively impacts performance reporting quantity and quality.

When describing the benefits of standardizing the TSO requirements, certain countries, such as the UK, which is fairly progressive in this area, can be used as examples. Charities' statutory annual reports in the UK are now being encouraged to include this type of reporting, marking the first time such guidelines have been introduced. As stated by the Charity Commission and Office of the Scottish Charity Regulator (OSCR) in 2014, paragraph 1.43, impact is the highest form of a charity's

¹ Large UK charities such as these must prepare an Annual Report, which must contain performance information, albeit charities have freedom in reporting performance.

² Charities voluntarily publish Annual Reviews, which are not subject to requirements/recommendations as to content.

³ There are no specific requirements on what UK charities must publish on their websites

performance. It is recommended to report on impact as it can enhance accountability, legitimacy, and even effectiveness. The UK charity commission has furnished the pertinent organization with the reporting guidance specific to the UK, known as the Statement of Recommended Practice (SORP). The SORP defines impact as "the enduring consequence of a charity's actions on both individual recipients and society as a whole" (Charity Commission and OSCR, 2014, para. 1.43). The SORP also suggests that a set of performance indicators, encompassing data on resources, actions, results, and effects, could be useful in elucidating the influence. Charities have considerable leeway to effectively communicate their impact and performance, as stated by the Charity Commission (2009, p. 20).

Singapore has emulated the UK by adopting the same reporting guidance beyond its own borders. What is the purpose of reporting guidelines for countries such as Singapore and the UK? Does it solely serve as a manual for TSOs? Alternatively, could it serve as a benchmark for both the general public and its particular stakeholders? The solution encompasses more than that; McConville (2017), in her examination of charity reporting impact, advantages, difficulties, and areas for improvement, enumerates three advantages of standardization of reporting, namely, meeting stakeholders' expectations, concentrating on and attaining the charitable mission, and fulfilling legal reporting obligations. To begin with, meeting stakeholders' expectations in this context can be elucidated as the process of standardizing reporting, which has the potential to convince supporters and other individuals that the organization is legitimate, efficient, and deserving of their support. It is crucial to persuade stakeholders of this matter in an industry that depends on public confidence to maintain and advance its operations (Saxton et al., 2012). This is particularly important in a sector that has experienced a decrease in trust due to recent scandals (Murray et al., 2016). Furthermore, the sector debate emphasizes the importance of standardization reporting in evaluating the effectiveness of charities in achieving their charitable missions, which are often aimed at creating a positive impact for beneficiaries or society. According to the saying 'what gets measured gets done', this discussion proposes that reporting can help charities concentrate on their ability to maximize their impact on beneficiaries and society (Inspiring Impact, 2013). Reporting and ongoing monitoring have been proposed as beneficial for charities in several ways. They can assist in evaluating progress towards the organization's mission and preventing any deviation from it. Additionally, they can identify areas of commendable practices or areas that need improvement. Moreover, they can aid in the more efficient allocation of resources (Kazimirski & Pritchard, 2014). Furthermore, adhering to legal reporting obligations implies that implementing standardized reporting can assist TSOs in meeting various reporting requirements, which are essential for maintaining legitimacy. According to the different regulations and directives of the TSO, all registered TSOs in Malaysia have the choice to create a trustee annual report. This report, among other things, details how the charity operates for the benefit of the public. Therefore, the presence of guidance can aid in fulfilling this responsibility. For instance, the recent guidance from the Charity Commission Northern Ireland (NI) (2016) suggests that it could be beneficial to consider the effect that the charity's activities have had on its intended beneficiaries.

METHODOLOGY AND SCOPE

This research makes use of a quantitative approach, during which direct comparisons are made between the reporting regulations in Malaysia and those in several other nations. This approach was chosen because it is consistent with some other types of published publications that explore and characterize Malaysian TSOs. (Arshad et al., 2012; Atan et al., 2012) The majority of the research that has been done on Malaysian TSOs has focused on the topic of the financial reporting of charitable organizations and non-governmental organizations. On the other hand, the contents of these few published papers could use some consistency, particularly the sections that attempt to explain the features of the sector as well as its activities and makeup. In addition, none of the pieces of published literature that were examined included all seven regulatory agencies in their analysis of the market.

ANALYSIS**TSOs Reporting in Malaysia**

| Regulator | Types | Ministry | Governing Law | Filing required | Publicly available | Reporting info uses harmonised, legitimate standards |
|---|--------------------------------|--|---|------------------------|---------------------------|---|
| Registrar of Societies | Associations | Home Affairs | Societies Act 1966 | Yes | No | No |
| Registrar of Youth Societies | Youth associations | Youth and Sports | Youth Societies and Youth Development Act 2007 | Yes | No | No |
| Office of the Commissioner of Sports | Sports associations | Youth and Sports | Sports Development Act 1977 | Yes | No | No |
| Companies Commission of Malaysia | Companies Limited by Guarantee | Domestic Trade, Cooperatives and Consumerism | Companies Act 2016 | Yes | No | No |
| Legal Affairs Division of the Prime Minister's Department | Trust/Foundation | Prime Minister's Department | Trustee (Incorporated) Act 1952 | Yes | No | No |
| Labuan Offshore Financial Services Authority | Trust/Foundation | Finance | Labuan Foundation Act 2010 or Labuan Trust Act 1996 | Yes | No | No |
| Department for Trade Union Affairs | Trade unions | Human Resources | Trade Union Act 1959 | Yes | No | No |

The ROS requires societies to submit annual returns within 60 days of their annual general meeting. Documents forming part of the annual returns include the financial statement, minutes of the annual general meeting, particulars of the office bearers, statement of assets, list of foreign organizations affiliated with the society, and list of funders⁴. Private companies are longer compelled to hold annual general meetings under the Companies Act 2016. Annual Returns are to be lodged on the anniversary of its incorporation, and the date for the lodgment of Financial Statements is within seven months from the financial year end of the company.⁵ However, corporation charities or foundations incorporated under the Companies Act 2016 shall be incorporated as a public company limited by guarantee (CLBG). According to Section 340(1) of the Companies Act 2016, every public company shall hold an annual general meeting (AGM) in every calendar year where the company shall lay the audited financial statements and the reports of the directors and auditors. Also, the registrar may require the CLBG to submit a segmental report and its financial statements. Furthermore, the CLBG is required to disclose the funds or donations in the note of the financial statements.⁶

Trust corporations may also be established in accordance with the Trust Companies Act 1949, as long as the company's authorized capital is equal to or greater than RM500,000.00, divided into shares of no less than ten ringgit (RM10.00) apiece. The trust businesses must ensure that their objectives fall within the purview of Section 8 of the Act, which primarily pertains to offering trustee services, acting as executor and administrator of estates, and providing custodian services for the beneficiaries. As a trustee company, it has the authority to invest and borrow within the limits set by the Act. Just like companies formed under the Companies Act 2016, a trustee company must submit a statement to the registrar. This statement should detail the company's obligations to the public as a trustee, as well as the firm's investments and holdings in a trust account. To verify the correctness of the asserted statement, a signed affidavit by the chairman or deputy chairman, witnessed by a management or the company secretary of the company, is required. Furthermore, the subsequent documents need to be provided: The required documents include the Annual Returns, a Statement of Liabilities, and an Affidavit.

The SCO requests that all sports governing organizations annually present their membership rosters, financial statements, reports on activities, and minutes from their annual general meetings. Section 22 of the Youth Development Act mandates that all youth associations present their membership list, yearly financial statement, statement of assets, report on activities conducted during the previous year, and list of office bearers. Since both are within the purview of the Ministry of Youth and Sports, the criterion is quite similar to that of a sports association. The board of trustees must submit an annual visual report to the BHEUU outlining the foundation's activities alongside the audited financial statements. Labuan charity foundations that seek public donations must submit their annual audited accounts to the Labuan Financial Services Authority (FSA) no later than six months after the end of each fiscal year, as per Clause 8 of the Guidelines on the Establishment of Labuan Foundation. Under the Trade Union Act of 1959, trade unions must annually submit their financial reports by October 1.

TSOs reporting in South East Asia

It is common for Malaysia to have multiple regulatory authorities overseeing TSOs. In the Philippines, there are three distinct types of TSOs, each subject to regulation by one of two different governing bodies, depending on their specific operations. In the Philippines, mutual benefit groups

⁴ <http://www.ros.gov.my/index.php/my/direktori/54-orang-awam/perkhidmatan/147-penghantaranpenyata-Tahunan>

⁵ See: <http://www.theedgemarkets.com/article/first-phase-companies-act-2016-kicks-today>

⁶ https://www.ssm.com.my/Pages/Legal_Framework/Document/GUIDELINES-ON-COMPANY-LIMITED-BY-GUARANTEE-270921-Final.pdf

are not considered philanthropic or benevolent organizations. Instead, they are legally classed as insurance firms according to Chapter VII of the Philippine Insurance Code. In Indonesia, there are two types of TSOs, which have legal recognition, enabling "societal organizations" to function without legal corporate status. Four distinct ministries in Vietnam are responsible for the oversight of five different types of TSOs. In Singapore, although there is a government regulator that oversees TSOs and their operations, charities are given the freedom to select their chosen legal structure. Thailand is the sole exception, as the Interior Ministry has jurisdiction over any foundations that are registered within the country. In short, South East Asian nations have a comparable regulatory framework to Malaysia, characterized by the presence of various authorities responsible for registration and monitoring (Hasan, 2008). Table 1 provides an overview of the legal structures and governing bodies for the chosen nations.

TSOs in South East Asia: Regulator characteristics and jurisdictions.

| Countries | Types | Governing law | Regulator | Filing required | Publicly available | Financial info uses harmonised, legitimate standards |
|------------------|--|---|--|------------------------|---------------------------|---|
| Philippines | Non-stock corporations | Revised Corporation Code Section | Securities and Exchange Commission (SEC) of the Philippines | Yes | Yes | Yes |
| | Nongovernmental educational institutions | | | Yes | Yes | Yes |
| | Microfinance NGO | Microfinance NGOs Act | Microfinance NGO Regulatory Council | Yes | Yes | Yes |
| Indonesia | Associations | Law No. 17/2013 on Societal Organizations | Ministry of Home Affairs Ministry of Law and Human Rights | No | No | Yes |
| | Foundations | Law No. 16/2001 on Foundations | | No | No | Yes |
| | Societal organisations without legal entity status | Staatsblad 1870-64 | | No | No | Yes |
| Vietnam | Social relief establishments (SRE) | Decree 103/2017 on Social Relief | Ministry of Labour, Invalids, and Social Affairs | No | No | Yes |

| | | | | | | |
|-----------|--|---|---|-----|-----|-----|
| | | Establishments | | | | |
| | Social and charitable funds Associations | Decree 93/2019 on Social And Charitable Funds Decree 45/2010 on Associations | Ministry of Home Affairs | No | No | Yes |
| | Scientific and technological organisations (STO) | Decree 08/2014 on STO | Ministry of Science and Technology | No | No | Yes |
| | International NGOs | Decree 12/2012 on INGOs | Ministry of Foreign Affairs | No | No | Yes |
| Singapore | Society | Societies Act 1967 | Registry of Societies and Commission of Charities (COC) | Yes | Yes | Yes |
| | Company limited by guarantee (CLG) | Companies Act (Cap.50) | Accounting and Corporate Regulatory Authority and COC | Yes | Yes | Yes |
| | Charitable trust | Trust deed | COC | Yes | Yes | Yes |
| Thailand | Foundation | Regulations, Operation and Registration of the Foundation BE 2545 (2002) | Ministry of Interior | No | No | No |

<https://www.cof.org/country-notes/nonprofit-law-philippines>.

<https://www.cof.org/content/nonprofit-lawindonesia>.

<https://www.cof.org/country-notes/nonprofit-law-vietnam>.

<https://www.charities.gov.sg/setting-up-a-charity/Pages/Overview.aspx>.

<http://www.thailand-business-law-center.com/registering-athailand-non-government-organization-ngo/>

TSOs reporting in the United Kingdom

The UK government monitors third-sector organisations through various laws, rules, and reporting criteria. As of November 2022, there are 200,000 organisations in England and Wales.⁷ The Charity Commission is the primary regulator of charities in England and Wales. It is an independent organisation created under the Charities Act 2022 to register and regulate charities and ensure they adhere to legal standards.

Under the Charities Act 2022, registered charities must submit yearly reports and financial statements to the commission. Disclosure of the organisation's financial activity, including income and expenses, assets and liabilities, and any other pertinent financial data, must be included in the accounts. Additionally, charities must submit annual reports outlining their accomplishments and benevolent endeavours. By submitting the annual return form, the commission can verify that all the information regarding every charity registered with them is complete and accurate. The form provides the commission with essential financial information and information about the charity's activities, classification, trustees, and contacts. Part 8 of the Charities Act 2022 stipulates that the audit will be conducted by the auditing standards issued by the Auditing Practices Board. If the TSO is incorporated as CLBG, it must file annual accounts and confirmation with the Companies House.⁸

Furthermore, there are several voluntary reporting standards, best practices for third-sector organizations, and legal requirements. As an illustration, the UK's Charity Governance Code offers a list of guidelines and suggested procedures for charities to adhere to show excellent governance. It promotes accountability and openness in managing charity organizations. Performance or impact reporting is also encouraged to promote efficiency and to prove the TSO's value. In the UK, such reporting is done to various organizations, among others, the Social Value UK,⁹ the New Philanthropy Capital (NPC),¹⁰ and the Impact Management Project (IMP)¹¹. The main goals of performance and impact measurement for a TSO are twofold: first, to show its value to both resource providers and service recipients, and second, to improve organizational performance through the use of evaluations of its programs or services and by benchmarking against other organizations through internal reporting (Huang & Hooper, 2011). Overall, the UK government takes the oversight of non-profit organizations seriously and works to ensure that they are adequately run, honestly, and in the best interests of their beneficiaries.

DISCUSSION

The UK Charity Commission, a long-standing organization, has progressively taken steps to assist and enhance the sector. They have expanded their registration responsibilities by issuing specific Statements of Recommended Practice (SORPs) and other publications. These resources aim to prevent overwhelming preparers with excessive standards and offer clear guidance for interpretation. This approach is also reflected in the Financial Reporting Standard for Smaller Entities (FRSSEs) regarding this matter. The sector data, which have been easily accessible since the implementation of the 1960 Act, offer a more comprehensive and reliable source of information. These figures help policymakers and stakeholders understand the sector's magnitude, complexity,

⁷ <https://www.stchads.ac.uk/wp-content/uploads/2022/11/Third-Sector-Trends-in-England-and-Wales-2022-structure-purpose-energy-and-impact-November-2022-2.pdf>

⁸ Companies House is the UK's registrar of companies, which maintains the register of all companies incorporated in England, Wales, Scotland and Northern Ireland—more info at <https://www.gov.uk/government/organisations/companies-house>.

⁹ <https://socialvalueuk.org/>

¹⁰ <https://www.thinknpc.org/>

¹¹ <https://impactfrontiers.org/norms/>

and level of responsibility. Consequently, resources have been allocated to the Charity Commission to construct a safeguarding mechanism against International Financial Reporting Standards (IFRSs) for registered charities.

Currently, the cornerstone of third-sector regulation in Southeast Asia is registration, where financial reporting obligations are outlined in language that is neutral to sectors and necessitates adherence to IFRSs. Many professionals working in charitable organizations in Southeast Asia, particularly in Singapore, are familiar with models from other nations, particularly the UK. They are actively advocating for the implementation of a more supporting and regulated layer of bureaucracy in their own country. However, the Charities Commission, which is a recent undertaking, has only been implemented in Singapore and has not yet served as a model for other nations. To adopt the UK financial reporting model instead of the current sector-neutral approach, Malaysia and neighboring countries would need to undergo a significant and fundamental change in their overall perspective. In addition, the absence of TSOs statistics diminishes the idea that the third sector holds little significance. The combination of this factor with the inadequate allocation of resources to regulatory authorities in Southeast Asia leads to results that are significantly different from the advancements in financial reporting observed in the UK.

In the future, it would be beneficial to form the Charity Commission in Malaysia, similar to how it is done in countries like Singapore, New Zealand, and England & Wales. The Charity Commission oversees a nationwide registry of charitable organizations, providing oversight, supervision, and assistance to the registered entities. Utilizing digital technologies allows for the implementation of a transparent and methodical approach to establishing charity organizations. This includes activities such as registration, reporting, and regulation, which serve to demonstrate authenticity and build confidence. This also guarantees that contributions from the public or other particular benefactors can be utilized effectively and prudently. The establishment of a Charity Commission is crucial to bolster the current framework of the charity sector in Malaysia, encompassing organizations falling under the Trustees Incorporation Act 1952.

CONCLUSION

Adopting a unified reporting standard or structure is of utmost importance for monitoring TSOs in Malaysia. The Malaysian government has yet to initiate a substantial effort against this. Due to the diverse nature of charity organizations, it is crucial to carefully oversee matters concerning governance and integrity. Philanthropy is a fundamental aspect of Malaysian culture. The establishment of a Malaysian Charity Commission will be a crucial undertaking, with the initial focus being on the need to standardize reporting specifically for TSOs. The establishment of a TSO statute in Malaysia should be regarded as a crucial measure in the process of changing the legislation that governs non-governmental organizations, societies, foundations, and charitable organizations.

It is necessary to keep in mind that the establishment of a Charity Commission is essential since it functions as an "independent regulator for charitable activities" and its objective is to promote public confidence in charitable organizations. When an organization goes through the process of registering as a charity, not only will it be eligible for grants from various foundations and other organizations, but it will also have access to certain financial benefits, such as an increase in the tax deductibility of donations, as well as a great lot of public respect. In addition, it is the responsibility of this regulator to ensure that the trustees who lead the charity board are capable of carrying out the mission specified by the donor. The model that will be most useful to import is the English Charity Commission; however, extra modifications will need to be made to match Malaysia's actual situation.

Laws in different jurisdictions provide an opportunity to learn from one another. Differences in law and data availability across countries make direct comparisons difficult (McConville & Cordery, 2018). Examining the similarities and differences between the laws of different countries is essential.

How do these variations affect the public's access to data, researchers' ability to collect data, and, most crucially, the effectiveness with which charities and their stakeholders operate? Mixed approaches help readers understand what and why behind the stated findings. Disclosing information to the public may be a useful technique for creating confidence and trust since a TSO's performance is becoming more relevant to stakeholders. Authorities across the globe are debating how much emphasis should be placed on mandatory performance reporting. As mentioned above, further research into this area might help regulators design effective policies that account for the likelihood of dysfunctional consequences, promote performance reporting that is valuable to key stakeholder groups, and stimulate changes in underlying performance.

AUTHORS' CONTRIBUTIONS

All authors have contributed to completing this manuscript. MHM has developed the overall idea of the paper and contributed to writing the introduction and conclusion of the research. NER has written the literature review and methodology section, while MUR has contributed to completing the main analysis part. Lastly, MB has written the discussion part of the research project.

REFERENCES

- Ali, Z., & Hassan, H. (2017). Regulating Charitable Organisations in Malaysia: Challenges and Recommendations. *Pertanika Journal of Tropical Agricultural Science*, 25(S), 45–50.
- Arshad, R., Bakar, N. A., Sakri, F. H., & Omar, N. (2012). Organizational characteristics and disclosure practices of non-profit organizations in Malaysia. *Asian Social Science*, 9(1), 209–217. <https://doi.org/10.5539/ass.v9n1p209>
- Atan, R., Zainon, S., & Wah, Y. B. (2012). The Extent of Charitable Organisations' Disclosures of Information and its Relationship with Donations. *Malaysian Accounting Review*, 11(2), 15–38.
- Chalmers, K., Godfrey, J. M., & Lynch, B. (2012). Regulatory Theory Insights into the Past, Present and Future of General Purpose Water Accounting Standard Setting. *Accounting, Auditing & Accountability Journal*, 25(6), 1001–1024. <https://doi.org/10.1108/09513571211250224>
- Chan, L.-M., Keh, C.-G., Tang, S.-E., Tan, Y.-T., & Koay, Y.-Y. (2020). Can The “Tax the Rich, Subsidise the Poor” Policy Improve Financial Satisfaction Among Malaysians? *International Journal of Management Studies*, 27. <https://doi.org/10.32890/ijms.27.1.2020.8005>
- Cheng, S.-H. (1972). Government Legislation for Chinese Secret Societies in The Straits Settlements in The Late 19th Century. *Journal of Critical Perspective on Asia*, 263–271.
- Christensen, T., & Lægreid, P. (2006). *The Whole-of-Government Approach – Regulation, Performance, and Public-Sector Reform*. Stein Rokkan Centre for Social Studies. <https://norceresearch.brage.unit.no/norceresearch-xmlui/handle/1956/1893>
- Cordery, C. (2013). Regulating Small and Medium Charities: Does It Improve Transparency and Accountability? *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 24(3), 831–851. <https://doi.org/10.1007/s11266-013-9381-6>
- Cordery, C., Sim, D., & Van Zijl, T. (2017). Differentiated Regulation: The Case of Charities. *Accounting & Finance*, 57(1), 131–164. <https://doi.org/10.1111/acfi.12131>
- Dhanani, A., & Connolly, C. (2012). Discharging Not-for-profit Accountability: UK Charities and Public Discourse. *Accounting, Auditing & Accountability Journal*, 25(7), 1140–1169. <https://doi.org/10.1108/09513571211263220>
- Hantke-Domas, M. (2003). The Public Interest Theory of Regulation: Non-Existence or Misinterpretation? *European Journal of Law and Economics*, 15(2), 165–194. <https://doi.org/10.1023/A:1021814416688>
- Huang, H. J., & Hooper, K. (2011). New Zealand funding organisations: How do they make decisions on allocating funds to not-for-profit organisations? *Qualitative Research in Accounting and Management*, 8(4), 425–449. <https://doi.org/10.1108/11766091111189909>

- Hyndman, N., & McConville, D. (2016). Transparency in Reporting on Charities' Efficiency: A Framework for Analysis. *Nonprofit and Voluntary Sector Quarterly*, 45(4), 844–865. <https://doi.org/10.1177/0899764015603205>
- Hyndman, N., & McConville, D. (2018). Trust and Accountability in UK Charities: Exploring the Virtuous Circle. *The British Accounting Review*, 50(2), 227–237. <https://doi.org/10.1016/j.bar.2017.09.004>
- Kazimirski, A., & Pritchard, D. (2014). *Building Your Measurement Framework: NPC's Four Pillar Approach* [Research]. NPC. <https://www.thinknpc.org/wp-content/uploads/2018/07/NPCs-four-pillar-approach-FINAL.pdf>
- Kanval, N., Ihsan, H., Irum, S., & Ambreen, I. (2024). Human Capital Formation, Foreign Direct Investment Inflows, and Economic Growth: A Way Forward to Achieve Sustainable Development. *Journal of Management Practices, Humanities and Social Sciences*, 8(3), 48-61.
- Rashid, A., Jehan, Z., & Kanval, N. (2023). External Shocks, Stock Market Volatility, and Macroeconomic Performance: An Empirical Evidence from Pakistan. *Journal of Economic Cooperation & Development*, 44(2), 1-26.
- Martin, G., Connolly, C., & Wall, T. (2018). Enhancing NDPB Accountability: Improving Relationships with Upward and Downward Stakeholders. *Public Management Review*, 20(9), 1309–1331. <https://doi.org/10.1080/14719037.2017.1363905>
- Mayer, L. H., & Wilson, B. (2010). Regulating Charities in the Twenty-First Century: An Institutional Choice Analysis. *HeinOnline*. <https://heinonline.org/HOL/LandingPage?handle=hein.journals/chknt85&div=27&id=&page=>
- McConville, D., & Cordery, C. (2018). Charity Performance Reporting, Regulatory Approaches and Standard-Setting. *Journal of Accounting and Public Policy*, 37(4), 300–314. <https://doi.org/10.1016/j.jaccpubpol.2018.07.004>.
- Salamon, L. M. (1987). Of Market Failure, Voluntary Failure, and Third-Party Government: Toward a Theory of Government-Nonprofit Relations in the Modern Welfare State. *Journal of Voluntary Action Research*, 16(1–2), 29–49. <https://doi.org/10.1177/089976408701600104>.
- Saxton, G., Kuo, J.-S., & Ho, Y.-C. (2012). The Determinants of Voluntary Financial Disclosure by Nonprofit Organizations. *Nonprofit and Voluntary Sector Quarterly*, 41(6), 1051–1071. <https://doi.org/10.1177/0899764011427597>.
- Stigler, G. J. (1971). The Theory of Economic Regulation. *The Bell Journal of Economics and Management Science*, 2(1), 3. <https://doi.org/10.2307/3003160>.