



LEGAL FRAMEWORK FOR NON-PROFIT ORGANISATIONS IN MALAYSIA AND THE NEED FOR A STANDARD REGULATORY & COMPLIANCE FRAMEWORK IN CHARITY GOVERNANCE

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ABSTRACT

Non-Profit Organisations (NPO), also known as Non-Governmental Organisations or Charitable Organisations in Malaysia are governed by multiple laws and regulatory bodies, each with distinct compliance requirements. This study examines the available legal frameworks for NPOs in Malaysia and its compliance requirements, conducted through doctrinal and non-doctrinal analysis of the current legal framework and incorporating survey with key stakeholders to explore governance challenges. The existence of multiple laws creates confusion amongst the public regarding standard terms like "Foundations" as each type of NPO has unique registration and compliance criteria. While these multiple legal spheres offer flexibility in choosing suitable model for registration, they also highlight the need for standardisation and uniformity to enhance governance practices. With the current demand for the third sector and Social Finance, this study underscores the urgency of streamlining regulatory frameworks to foster better charity governance practices, drawing insights from well-presented Islamic Economic models throughout history.

Keywords: Non-Profit Organisation, Regulatory, Compliance, Charity Organisation, Governance

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INTRODUCTION

A non-profit organisation (NPO), is a legal entity operated for a collective, public or social benefit (UNICEF). In certain countries, NPO is often used synonymously with the term non-governmental organisation (NGO), civil society organisation (CSO), foundation and charitable organisation. The United Nations (UN) Department of Public Information (DPI) defines the NGO as “a not-for-profit, voluntary citizen’s group that is organized on a local, national or international level to address issues in support of the public good. On the other hand, The Organization for Economic Cooperation and Development (OECD) refers to a non-governmental organisation (NGO) as any non-profit entity organised on a local, national or international level to pursue shared objectives and ideals, without significant government-controlled participation or representation (OECD, 2018).

As quoted by Suruhanjaya Syarikat Malaysia (SSM) in the Best Practices of NPO (2014), Financial Action Task Force (FATF) defined NPO as legal person or arrangement or organisation that primarily engages in raising and disbursing funds for charitable, religious, cultural, educational, social or fraternal purposes, or for carrying out of other type of “good works”. Section 45 of the Guideline on Company Limited by Guarantee (CLBG) stated that CLBG can only be formed for the following objects; (a) promoting recreation or amusement; (b) promoting commerce and industry; (c) promoting art; (d) promoting science; (e) promoting religion; (f) promoting charity; (g) promoting pension or superannuation schemes or; (h) promoting any other objects useful for the community or country, such as (i) environment; (ii) health; (iii) education; (iv) research; (v) social; or (vi) sports.

Non-profit organisation plays a significant role in fulfilling the needs of the society that is unfulfilled by the public and private sector (Omar, Arshad, Ab Samad & Ismail, 2016). NPO in Malaysia are registered and regulated under multiple laws and regulatory bodies. This causes a confusion on key issues such as the legal framework, compliance requirements and practice guidelines such as reporting standards or administration fee utilisation by the said NPO. When the organisation is subject to regulation by multiple regulatory bodies, there is a tendency of having difficulties in benchmarking itself against best practices. Each regulatory body have distinct sets of standards and requirements for compliance which the priorities of the governance, accountability and operational practices are different. There are also comparability issues where diverse regulatory frameworks make it difficult to compare organisations for benchmarking purposes and thereafter hinder the organisations’ effort to improve their performance and governance. The challenges of having diverse standards to comply with may cause issues of transparency and accountability and put the NPOs at risks of scrutiny and exposure to bad governance practices. Therefore, the aim of this paper is to (i) review the available legal avenues for NPOs in Malaysia and its compliance requirements as prescribed by their respective laws or practice guidelines (under each regulator); (ii) review existing charity governance framework; (iii) examine the existing literatures on issues and challenges faced by the NPOs to adopt good governance practices; and (iv) present the recommendations and way forward for enhancing the governance of NPO.

The study combines both doctrinal and non-doctrinal analyses to assess the current legal framework and practical approach of NPO in Malaysia. The doctrinal analysis provides a detailed examination of the existing legal framework, including statutory laws, regulations, and legal principles that govern NPO compliance and governance practices in Malaysia. The non-doctrinal analysis focuses on the practical application of these laws, evaluating how they impact compliance and governance within NPOs. This approach looks at best practices, challenges, and the effectiveness of current practices. A simplified survey is also conducted with key NPO stakeholders, including authorities, charitable organizations, and donors, to





explore the challenges faced by charitable organizations in Malaysia. By integrating the findings from both analyses, the study offers a comprehensive understanding of the legal and practical aspects of charitable organizations, helping to identify gaps between legal principles and actual practices. The integration aims to provide recommendations for enhancing the legal framework and governance practices, ultimately improving the governance of charitable organizations and ensuring more effective use of funding for targeted beneficiaries.

Landscape of Legal Registration in Malaysia

Legal registration landscape in Malaysia unveils a multifaceted framework shaped by multiple regulatory bodies and processes. From societies championing local initiatives to foundations dedicated to philanthropy, each entity navigates a distinct path toward legitimacy within Malaysia's legal registration framework. Haji Ali, D. Z, Mohamad, N. A., & Syed Abd Kader, S. Z. (2020) highlighted that there is no single or comprehensive statute that governs charity, in particular non-Shariah based charity and no proper monitoring on charitable organization. Table 1 illustrated the summary of different legal registration frameworks. All the four types of entities with asterisk (*) can carry the term Yayasan or Foundation.

Table 1: Legal registration framework / platform to set up NPO

No	Regulator	Governing Statute/Law	Type of Entity	Annual Compliance
1	Registrar of Society (ROS)*	Societies Act 1966	Association / Society	<ol style="list-style-type: none"> 1. Annual General Meeting 2. Financial Report (Internal Auditor) 3. Tax Filing
2	Suruhanjaya Syarikat Malaysia (SSM)*	Companies Act 2016	Company Limited by Guarantee (CLBG)	<ol style="list-style-type: none"> 1. Annual General Meeting 2. Audited Financial Report 3. Annual Return 4. Tax Filing
3	Bahagian Hal Ehwal Undang-Undang (BHEUU), Jabatan Perdana Menteri (JPM)*	Trustees Incorporation Act 1952	Trust Incorporate Body	
4	Labuan Financial Services Authority (LFSA)*	Labuan Trusts Act 1996 & Labuan Foundation Act 2010	Trust Company / Labuan Foundation / Labuan International Waqf Foundation	
5	Ministry of Foreign Affairs, Malaysia (MOFA)	International Organisation (Privileges and Immunities) Act 1992 (IOPIA)	International Organisation (IO)	
6	Suruhanjaya Koperasi Malaysia (SKM)	Co-operative Societies Act 1993	Co-operative Society	<ol style="list-style-type: none"> 1. Annual General Meeting 2. Audited Financial Report 3. Annual Return 4. Tax Filing
7	Registrar of Youth (ROY)	Youth Societies and Youth Development Act 2007	Youth Society	
8	Enakmen Pentadbiran Undang-undang Islam Negeri**	Undang-undang Islam Negeri Enakmen Negeri Eg. Wilayah	Islamic private School under Majlis Agama Islam Negeri	The guideline on annual compliance is not readily available or limited access for public viewing.





		Persekutuan - Akta 505 Akta Pentadbiran Undang-Undang Islam (Wilayah-Wilayah Persekutuan) 1993		
9	State Government**	Enakmen Negeri	Yayasan / Foundation under the state government	The guideline on annual compliance is not readily available or limited access for public viewing.

**There are additional non-profit entities (i.e. foundations) subject to the respective state laws

Charity Governance Framework

The governance framework plays a pivotal role in shaping the organisational structure, accountability and performance within the sectors. Each private, public and social development sector operates with distinct objectives and stakeholders. Table 2 outlined the existing social development or charity governance framework in which the similarities and differences of the components are observed, which contribute to fostering organisational accountability, sustainability and impacting communities.

Table 2: Charity governance framework

No	Institution	Framework	Components
1	Registrar of Society (ROS) Malaysia	Code of Good Governance (2016)	<ol style="list-style-type: none"> 1. Understanding role and responsibility 2. Ensuring the achievement of the organisational goals and objectives 3. Upholding effective internal control 4. Act efficiently, individually and in team 5. Act with integrity and transparency
2	United Nations Development Program (UNDP)	Elements of Good Governance	<ol style="list-style-type: none"> 1. Rule of Law 2. Participations 3. Transparency 4. Consensus oriented 5. Accountability 6. Effectiveness and efficiency 7. Equity and inclusiveness 8. Responsiveness
3	Australian Institute of Company Directors (AICD)	Not for Profit Governance Principles (2019)	<ol style="list-style-type: none"> 1. Purpose and strategy 2. Roles and responsibilities 3. Board composition 4. Board effectiveness 5. Risk management 6. Performance 7. Accountability and transparency 8. Stakeholder engagement 9. Conduct and compliance 10. Culture
4	Charity Commission for England and Wales	Charity Commission Governance Framework	<ol style="list-style-type: none"> 1. Accountability, openness and transparency 2. The Board - constitution, conduct and meetings 3. Role of the Chair 4. Role of the Chief Executive and Executive Leadership Team (ELT)





			5. Relationship between the Board and the ELT
5	Project Management Institute (PMI)	Governance frameworks for public project development and estimation	<ol style="list-style-type: none"> 1. Transparency, openness for scrutiny, maximum openness about basis for decisions. 2. Learning, willingness to change. 3. Setting common, high professional standards. 4. External control, independency. 5. Political anchoring of framework on high level. 6. Quality Assurance/Gateway review is non-political. 7. Look for big, important trends, not the minor details.
6	National Council for Voluntary Organisations (NCVO)	Charity Governance Code (2020)	<ol style="list-style-type: none"> 1. Organisational Purpose 2. Leadership 3. Integrity 4. Decision-making, risk and control 5. Board effectiveness 6. Equality, diversity and inclusion 7. Openness and accountability
8	Singapore Charity	Code of Governance Framework for Charities (2017)	<ol style="list-style-type: none"> 1. Board Governance 2. Conflict of Interest 3. Strategic Planning 4. Programme Management 5. Human Resource and Volunteer Management 6. Financial Management and Internal Controls 7. Disclosure and Transparency 8. Public Image

The components of the charity governance framework illustrated the similarity in terms of roles and responsibilities, organisational purpose and transparency and accountability. This reveals a notable coherence across different charity governance frameworks, highlighting commonalities of the principles of good governance within the social development sectors.

Issues and Challenges Faced by NPOS to Adopt Good Governance Practices

Governance is paramount in the non-profit sector, guiding the operations and ensuring accountability, transparency and ethical conduct. Previous literature highlighted NPOs face a range of issues and challenges that can impact their organisational effectiveness and reputation. Our review of the literature identified the core problems of having an unstandardised regulator with the respective consequences.

Non-Holistic Compliance Exercise Doubts Importance

Complexity and confusion may occur especially when each regulatory body has different requirements, timeline and reporting mechanisms. As an example, in terms of the structure type of entity used for those registered at Companies Commission of Malaysia is Company Limited by Guarantees (CLBG), while those registered at the Registrar of Societies, it can be in several other categories of civil society organisations such as association, trade union, foundation, political party, society and others.





Financial statements

In regards to the compliance in conducting or providing audited financial statements, the practise differs between regulatory frameworks, i.e. according to Section 248 of the Companies Act, 2016 (CA 2016), the Director shall prepare Audited Financial Statements (AFS) within 18 months from the date of its incorporation (for new Company) and subsequently, within 6 months of its Financial Year End. Pursuant to Sections 257, 258 & 259 of CA 2016, the Company are required to circulate to all the members, the auditors and debenture holders (if any) its duly approved and signed AFS for the Financial Year Ended 31 December 2023, at least 21 days before the date of its Annual General Meeting (AGM) and this AFS must be lodged with SSM within 30 days from its AGM. According to Section 68 of the CA 2016, the Company must lodge with SSM an Annual Return for each calendar year within 30 days from the anniversary date of its incorporation. Nonetheless, entities registered under the Registrar of Societies financial management account do not require for independent audit, as internal audit is sufficient.

Annual General Meeting

One of the compliance requirements for the said entity is, section 14 Societies Act 1966 – Revised 2021, every registered society to furnish annual statements, within sixty days after the holding of its annual general meeting or if no annual general meeting is held, within sixty days after the end of each calendar year. Failure of which upon expiration of thirty days from the provisional order, the Registrar has the power to cancel the registration of any society registered under section 7 of the said Act.

According to Section 340 (1), (2) & (3) of the Companies Act, 2016 (“CA 2016”), every public company (included Company Limited by Guarantee (CLBG)) shall hold an Annual General Meeting ("AGM") in every calendar year in addition to any other meetings held during that period. The AGM shall be held within 6 months of its Financial Year End provided that it is held, within 18 months from incorporation date for new CLBG, and within 15 months from the previous AGM for existing CLBG. The company and every officer who contravene subsection (1), (2) or (3) commit an offence and shall, on conviction, be liable to a fine not exceeding twenty thousand ringgit (RM 20,000.00).

Compliance Fraternity

Above are the common compliance i.e. annual submission, however, different Act and Regulations have different context and the interpretation, in terms of execution to compliance. Having these examples lead to another area of compliance which also has implications to the operation of NPO, for example tax, corporate liability and beneficial ownership.

Income Tax Return

According to Section 77A (1) of the Income Tax Act 1967, every company, limited liability partnership, trust body or co-operative society shall for each year of assessment furnish to the Director General a return in the prescribed form within seven months from the date following the close of the accounting period (Financial Year End) which constitutes the basis period for the year of assessment. Failure to comply with, shall expose to penalty by the Inland Revenue Board. This compliance requirement needs to be adhered to NPO because their revenue / income generated from donations received or maybe economic activities conducted consistent





with objectives of their constitution. Nonetheless, based on the practice, the majority of NPO are not aware of this requirement. This situation may differ between types of entities registered for charity purposes. The registration under ROS may not be integrated with IRB unlike the registration system under SSM.

Corporate Liability

Corporate responsibility: This is a general principle that holds companies accountable for the actions of the people who work for them or with them. There is a challenge in defining the term “commercial entities” for the NPO. Although their establishment is not for economic purposes, the transactions involved multiple parties and it includes the NPO. This has created a loophole in order to be aligned with the aspiration of the corporate liability concept under the section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009. According to the provision, companies can be held liable for bribery committed by their employees or associates (people who work closely with them). If an employee or business partner bribes someone for the company's benefit, the company can be punished. Nonetheless, companies can avoid punishment if they can show they have strong anti-bribery procedures in place i.e. TRUST principle. These procedures would help prevent bribery from happening in the first place.

Beneficial Ownership

This is another newly introduced provision that requires entities registered under the Companies Act 2016 to comply with, in which CLBG also be obliged. Criminals can hide behind businesses owned by nominees (people who hold something in trust for someone else), which now must be read together with section 8 of CA 2016 in order to identify natural persons who own or have control over the Company. The current definition of "beneficial owner" (BO) only considers who ultimately owns the shares, potentially missing those who control the company. This guideline proposes a Beneficial Ownership Reporting Framework (BO reporting framework) for all businesses. Businesses will be responsible for identifying and verifying their true owners (BOs). This information (BO information) needs to be accurate, up-to-date, and accessible to designated authorities in a timely manner and Companies will report any changes in BO information to the Registrar. By making BO information transparent, authorities can better fight financial crimes like money laundering and terrorism financing. Businesses will play a key role in this process by self-regulating and following these guidelines.

Anti Money Laundering and Countering Financing Terrorism

As outlined by Bank Negara Malaysia, in line with the international standards established by the FATF, the anti-money laundering (AML) and countering financing terrorism (CFT) currently being imposed on reporting institutions. However, the National Money Laundering/Financial Terrorism (ML/FT) Risk Assessment (NRA) by the National Coordination Committee to Counter Money Laundering (NCC) has assessed and identified the key threats and sectoral vulnerabilities exposed to AML compliance requirement outlined in the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and its implementing regulations. Given the susceptibility of charitable activities to money laundering abuse, implementing robust AML procedures is imperative for charity organisations. The AML/CFT requirements prescribed by the Bank Negara Malaysia form the cornerstone of the policy, implemented through a risk-based approach encompassing risk management, risk assessment, risk control and mitigation, risk profiling and risk reporting.





Charity organisations may take proactive steps in identifying and assessing Politically Exposed Person (PEP), be it foreign or domestic PEP. Concurrently, including Suspicious Transaction Report (STR) as part of their AML policy is essential where the transaction, regardless of the amount (a) appears unusual; (b) has no clear economic purpose; (c) appears illegal; (d) involves proceeds from an unlawful activity or instrumentalities of an offence; or (e) indicates that the customer is involved in ML/TF.

These are some of the compliance provisions highlighted, and not exhaustive. The options on regulatory frameworks have not allowed for a fair comparison for best practices to happen.

Inconsistency on Monitoring, Reporting and Penalties on Compliance

As outlined in Table 1, NPO is subjected to annual compliance evaluation by the respective regulatory authorities. From the perspective of the staff that possess a comprehensive understanding of the regulatory mandates, adherence to compliance should be straightforward. Despite each regulatory body having its own guideline, the lack of harmonisation results in overlapping and conflicting requirements.

The absence of standardised guidelines may also impose monitoring burdens on regulators, particularly due to the dynamically changing regulatory landscape influenced by evolving law, policies and enforcement priorities. In addition to the inefficient coordination and communication by the regulatory authorities to the stakeholders, NPO may struggle to reconcile the inconsistencies and ensure compliance without violating regulations. Table 3 illustrated the penalties of non-compliance under Companies Act 2016 whereas Table 4 illustrated the relevant penalties to charity organisation for non-compliance tax under Income Tax Act 1967.

Table 3: Penalties under Companies Act 2016

Section	Description	Penalties
68(9)	Lodgement of annual return within 30 days from the anniversary of its incorporation date	Not exceeding RM50,000.00 and in case of continuing offence, to a further fine not exceeding RM1,000.00 for each day during which the offence continues after conviction
248(3)	Director shall prepare financial statements	Not exceeding RM500,000.00 or 1 year imprisonment or both
257(4)	Duty to circulate copies of financial statements and reports	Not exceeding RM50,000.00
259(3)	Duty to lodge financial statements and reports with the Registrar	Not exceeding RM50,000.00 and in case of continuing offence, to a further fine not exceeding RM1,000.00 for each day during which the offence continues after conviction

Table 4: Penalties for non-compliance tax under Income Tax Act 1967

Section	Description	Penalties
112(1)	Failure (without reasonable excuse) to furnish an Income Tax Return Form.	RM200.00 to RM20,000.00 / Imprisonment for a term not exceeding 6 months / Both
115(1)	Attempt to leave the country without payment of tax.	RM200.00 to RM20,000.00 / Imprisonment for a term not exceeding 6 months / Both
119A	Fails (without reasonable excuse) to comply with an order to keep proper records and documentation.	RM300.00 to RM10,000.00 / Imprisonment for a term not exceeding 1 year / Both
103(3)	Pay taxes after 30th April.	Starting from 1st January 2020 10% increment from the tax payable





Competency, Ethical and Moral Compass

Being seen as a growing sector, social development has yet to gain its stability in getting competent and right talents to spearhead and accelerate the maturity of the said sector. Observation made to the adoption of good governance practice in which legal and compliance as a part of the fundamental is facing a real challenge when the appointed board members, president and its committees do not understand the purpose, directions and obligations of establishing and managing the organisations. Besides, the existing legal and regulatory frameworks are massive and one has to really consider which framework is suitable before committing to the compliance requirements. Failure of which leads to issues of non-compliance and the expected implementation standard is higher because it involves public interest.

Hiring competent and skilful talents and to be competitive in the salary market hinders NPO from having the access in making or uplifting the management quality of NPO in complying with the legal and regulations (Ab Samad, N. H., & Ahmad, N. H., 2021). This has eventually contributed to the behaviour and way of thinking of those stakeholders on the importance of maintaining a good compliance culture in organisations for sustainability. Financial aspect due to lack of funds of NPO (Othman et al., 2012) has made NPO stuck in balancing the operation needs and managing stakeholders' expectations.

Maturity of the sector is seen as one of the milestones to be achieved, and that could only happen if the internal stakeholders of NPO can contribute effectively. For example, a collective effort of professional accountant and practitioner in the social development sector has initiated in drafting International Financial Reporting Standard for Non-Profit Organisation (IFR4NPO) in responding to the standard guideline for NPO to do financial reporting, as currently it adopts the business outfit of financial reporting and some are driven by donor's requirements. Data collected at the stakeholder's engagement session of IFR4NPO on common categories of challenges for charitable organisations in Malaysia, as append in Table 5 below.

Table 5: Common categories of challenges

No.	Challenges	Description
1	Loose governance structure	No guideline or compatible standard for Non-Profit Organisations (NPO), political influence, lack of transparency, lack of integrity, funds management.
2	Limited resources	Funding, grant, support, capacity building.
3	Impactful programs and projects	Reporting, targeting beneficiaries, public expectation.
4	Stakeholder engagement	Lack of coordination.

Acknowledging the above challenges, it is important that the internal stakeholders play vital roles in managing the moral and ethical compass, especially when there are no unified compliance standards and loopholes due to multiple compliance requirements that may leave some grey areas / gaps for the decision-making process. Adopting good governance practices set by the practitioner as per Table 2 of this paper at least can give a good foundation for common direction and managing risk effectively on conflict of interest, disclosures, related party transactions, ethics and moral culture.

CONCLUSION AND FUTURE RECOMMENDATIONS

The current review has shed light on the pivotal findings concerning the mapping of legal registration procedures for NPO in Malaysia, the existing charity governance structure and the





spectrum of issues and challenges faced by the NPO. This underscores the need for actionable steps in streamlining the efforts for the good governance practices of NPO is mapped out through the implementation of the following actions:

Impactful and Sustainable Intervention on Charity Governance Agenda

Secretariat / Special Taskforce

In the pursuit of establishing a charity governance agenda, it is essential to identify experts capable of contributing their expertise and guiding the direction of the initiative. These individuals will serve to spearhead the efforts to navigate challenges and gaps and steer the task force towards achieving the objective effectively. In addition, the task force will play a vital role as caretaker or vehicle mechanism to ensure sustained commitment throughout the establishment journey. The initial framework setup will provide necessary structure and support to uphold the goals over time, fostering a culture of dedication and perseverance among all stakeholders involved. By harnessing the expertise of these identified experts and implementing robust secretariat structure, it will be more confident to strive towards realising the shared vision with unwavering determination and commitment.

Structured Stakeholders' Engagement

Central to the strategy of establishment of charity governance is through the identification of stakeholders and a well-planned and structured stakeholder mapping of their interest and concern. A stakeholder engagement session will follow up afterwards to harness invaluable input from the stakeholders in which the structured mapping ensures the engagement sessions yield valuable insights, enabling for an effective action plan in achieving the objectives. A roundtable Discussion Session 1 of the Malaysia Civil Society Organisation Empowerment Program (MyCSOEP) was conducted on 5 August 2019 at 2:00 pm which authors of this study served as the rapporteur and organiser of the Roundtable Discussion (RTD) and speaker presenting one of the topics during the RTD to obtain insights from multiple stakeholders on the good governance practices within the social development sectors.

Below is the extract from the Minutes of the RTD held at the Ministry of Women, Family and Community Development which highlights the important points of resolution.

- i. The stakeholders recognise the needs and importance of good governance in order to uplift the third sector professionalism.
- ii. The stakeholders recognise the needs to establish a Charity Commission for the purpose of:
 - a) laying down the guidelines for civil societies in Malaysia;
 - b) sharing of best practices; and
 - c) creating awareness on the importance of good governance.
- iii. To set-up a taskforce to pursue the establishment of a Charity Commission.

It is important to recognise the previous effort and continue targeting advocacy and awareness across all levels of the stakeholders, both strategic and within the mass public. By engaging in strategic advocacy initiatives and disseminating the information widely to cultivate the shared understanding and garner support for the cause, thereafter maximising the impact of driving meaningful change.





Knowledge Resources

A critical aspect of the strategy of charity governance establishment involves the development of knowledge resources constituting the non-exhaustive references such as guidance notes, standard, learning module or syllabus to underpin the “software” of the capacity building program. These resources will serve as essential tools in equipping individuals within the non-profit sector with the necessary knowledge and skills to thrive in their roles. Additionally, it is crucial to recognise the importance of establishing a clear career pathway as a profession within the non-profit sector to facilitate professional growth and development. By providing opportunities for individuals to enhance their competencies and become subject matter experts, it is aimed to bolster the overall ecosystem of the non-profit sector.

Furthermore, it is also important to develop a structured hierarchical training system, professional certification program and career development plan to attract and retain top talents for the sector thus improving the quality of the sector, enhancing its impact and competitiveness. Lastly, the strategy involves the establishment of the quality standard and best practices as benchmark for excellence, while at the same time activating research studies to assess the effectiveness of the regulation implementation. Consequently, implementing performance indicators and NGO performance rating may ensure accountability and continuous effort to strive for improvement within the sector.

Centre of Reference

The ultimate goal of the charity governance establishment may also consider establishing a sustainable resource centre dedicated to research and development for a pivotal initiative aimed at nurturing growth and maturity of Malaysia’s third sector. The centre will serve as a hub for innovative ideas, strategic collaboration, and evidence-based solutions, providing vital support to non-profit organisations across nations. By activating the research and development effort, the power of knowledge and data is harnessed to address the pressing challenges, identify emerging trends and develop sustainable strategies for long term impact especially on enhancing the good governance practices. Through this initiative, it is aimed to foster the culture of continuous learning, adaptation and improvement within the third sector, ultimately empowering non-profit organisations to thrive and create meaningful change in the sector and impact to the beneficiaries.

Uniformity Promotes Better Governance

The effort made leading to the establishment of Charities Commission, has enabled the realisation of several key benefits, including:

Effective Monitoring and Evaluation for Compliance by Single Authority

The centralisation of the authority also reduces duplication of efforts, ensures consistency in enforcement and facilitates coordination among stakeholders. The regulatory bodies may also conduct regular inspection, audits, and review of financial records, activities and governance practices in a timely manner. Effective compliance monitoring helps identify any deviations from standards and enable timely intervention to address the issues.





Adoption of Recognised Good Governance Practices

The establishment of a charity commission streamlining the monitoring and evaluation mechanism by having a clear regulatory framework, adopted from good governance practices outlining the legal requirements, financial reporting standards, governance structure and ethical guidelines. Figure 1 represent the governance framework developed by International Governance and Sustainability Centre deriving from various best practices. The governance framework highlights the key components essential for effective organizational governance. Each component includes a checklist designed to assess the organization's governance health by reviewing internal process documents, operational effectiveness, and stakeholder perceptions. Components are evaluated on a scale of up to 10 points. The red line represents a healthy governance state, while the constricted blue line indicates areas with gaps that may require further attention. The Legal and Compliance aspect, marked with an orange box, is emphasized as the current study focuses on charity governance issues within this domain.



Figure 1: Governance framework developed by International Governance and Sustainability Centre

Comprehensive Talent Ecosystem to Support the Growth of the Social Development Sector

A standardised authority outlining the overall talent ecosystem including guidance, training and assistance on the regulatory requirement allowing sustainable capacity building initiatives to enhance the compliance and capabilities of charitable organisations and the talent involved in the sector.

In conclusion, the study highlights that the existence of multiple legal governance frameworks for charitable organisations in Malaysia creates significant challenges in adopting consistent and effective governance practices. These challenges hinder the ability to benchmark against international best practices, making it difficult for charitable organisations to align with global standards of governance and compliance. To address these issues, there is a strong need for the standardisation and unification of governance frameworks across the sector. By establishing clear, uniform guidelines, charitable organisations can enhance their governance and compliance practices, leading to improved transparency, accountability, and efficiency. Such reforms would not only strengthen the internal operations of charitable organisations but also boost their reputation and foster greater trust among stakeholders and the public.





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