

Zakat Accounting and Auditing Standard No.1

July 2020

Objectives and Principles
of a Zakat Audit



NZF
Worldwide

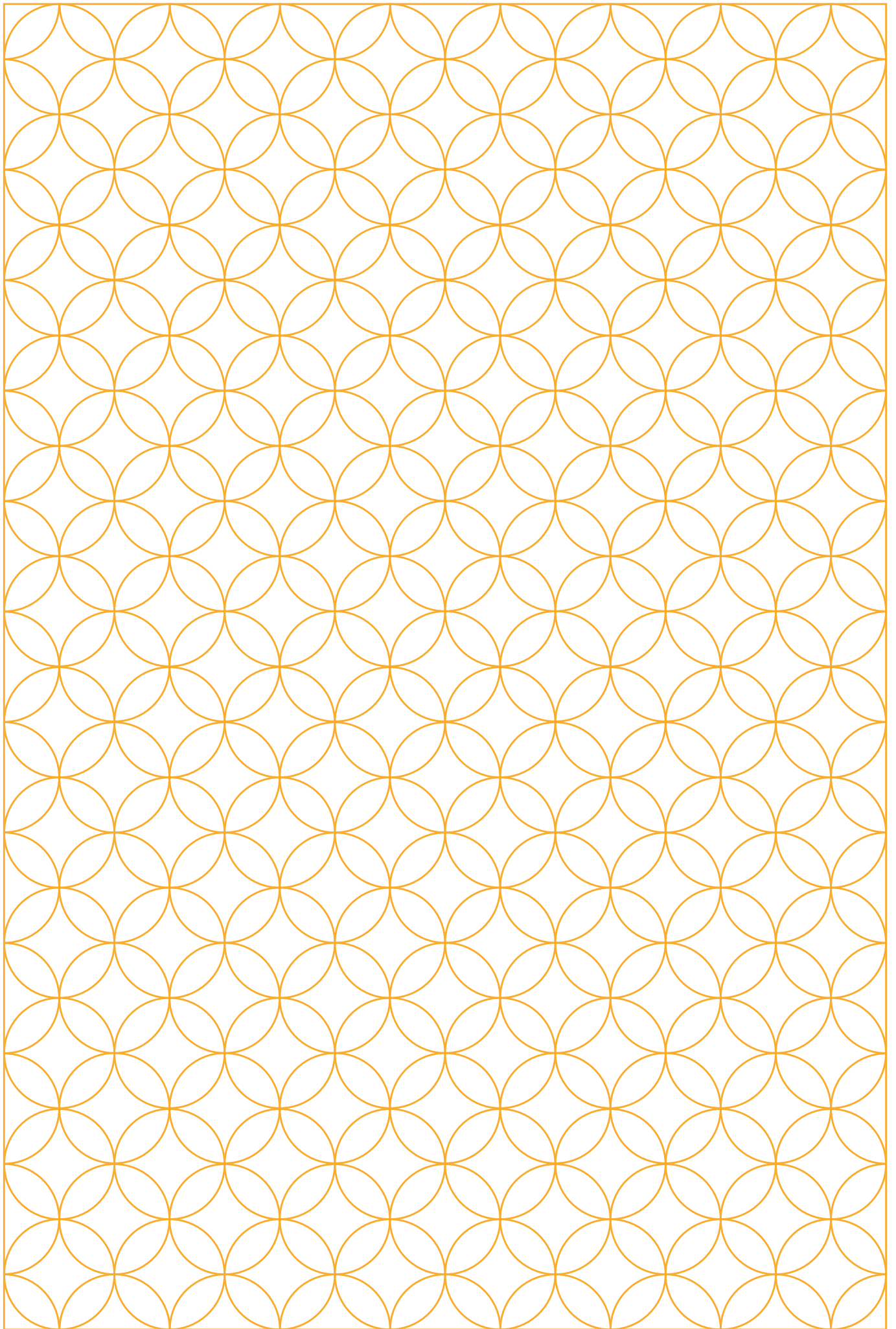


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IN THE NAME OF ALLAH, THE MOST BENEVOLENT, THE MOST MERCIFUL

All praise be to Allah, the Lord of all the worlds, and blessings and peace be upon our master, Muhammad, and his household and all his companions

Preface

The purpose of this standard is to give an overview of the objectives and principles of a Zakat audit. The Zakat audit plays an important function in ensuring that the Zakat institution is managing the Zakat in a diligent manner with due care. The Zakat audit is a duty to all the different stakeholders involved in the Zakat sector including the Zakat payers, Zakat beneficiaries and the Zakat collectors.

This standard will address the objectives of the Zakat audit, the outcomes from the Zakat audit, a summary of general practices in a Zakat audit, the scope of a Zakat audit and the role of a Zakat audit in providing reasonable assurance to the Zakat sector.

This standard can be considered as an introduction to the audit standards and everything listed will be presented in further standards in detail.

Statement of the standard

1. Introduction to Zakat Audit

- 1.1 The Zakat audit is an integral function in a Zakat institution which must take place on an annual basis.
- 1.2 The Zakat audit refers to both internal Zakat audits and external Zakat audits.

2. Objectives of a Zakat Audit

- 2.1 The objective of auditing the Zakat practices of any Zakat institution is to enable the auditor to express an opinion as to whether the institution is Zakat compliant and Shariah compliant.
- 2.2 The Zakat audit may include a review beyond the Zakat compliance and Shariah compliance. The Zakat audit may consider how a brand is being maintained or how there is alignment between a member and an umbrella organisation. Further, good governance, financial controls, service design, service delivery and marketing may all fall within the Zakat audit if agreed to in advance.
- 2.3 Although the auditor's opinion enhances the Zakat and Shariah compliance of the institution, the user cannot assume that the opinion is a lifetime guarantee and certainty of compliance. The audit is an opinion on the compliance in respect to the period under audit.

3. The Outcomes of Zakat Audit

- 3.1 A Zakat audit is performed to ensure that the organisation is end-to-end Zakat compliant and is also delivering on its promises. The audit objectives are as follows:
 - **Zakat compliance**
Each department is compliant with Zakat principles in terms of collection, management, and distribution of Zakat.
 - **Shariah compliance**
The entire organisation is Shariah compliant in terms of its finances, banking, agreements, policies, and business culture.

- **Stakeholder trust**
The audit ensures stakeholders are updated with an objective view of the management and operations of the Zakat institution.
- **Deficiencies and areas of improvement**
An audit assists in identifying areas of improvement as an audit combs through all aspects of the Zakat management and delivery services.
- **Good practice**
A Zakat audit is a good practice as it shows willingness from the Zakat institution to be transparent and constantly improve.
- **Good governance**
Zakat audits enhance the governance of the organisation and add an additional layer to its good corporate governance practices.
- **Risk mitigation**
Zakat audits identify Zakat non-compliance risks and helps mitigate such risks.
- **Market assurance**
Zakat audits build customer confidence in the Zakat institution which is vital for the Zakat institution to continually serve its payers and beneficiaries.

4. General principles for a Zakat Audit

- 4.1 The auditor should comply with a Code of Ethics of any auditing body. This must be established in the initial engagement letter preceding the Zakat audit.
- 4.2 A Zakat auditor should uphold the following characteristics whilst discharging their professional responsibilities¹:
- a) Righteousness
 - b) Integrity
 - c) Trustworthiness
 - d) Fairness
 - e) Honesty
 - f) Independence
 - g) Objectivity
 - h) Professional competence:
 - i) Due care and diligence
 - j) Confidentiality
 - k) Professional behaviour

¹ These professional responsibilities will be discussed in detail in the Zakat Audit Standard on Auditor Ethics.

5. Scope of an audit

- 5.1** The scope of an audit refers to all the areas reviewed as part of the audit process. The goal of the scope is to be comprehensive to achieve the audit objectives. The scope and the procedures must be outlined in the initial audit engagement letter.

6. Reasonable Assurance

- 6.1** An audit is designed to provide reasonable assurance of compliance to all stakeholders as per the auditor's opinion.
- 6.2** Reasonable assurance here means that the auditor is personally satisfied with what has been presented and that they are of the view that whatever was presented, complies with Zakat and Shariah principles.
- 6.3** Every audit has inherent limitations which may impact the auditor's ability to detect non-compliance risks such as:
- The use of sampling whilst reviewing Zakat grants and distribution practices.
 - Inherent limitations in any internal control systems.
 - Lack of complete information
 - The use of persuasive evidence instead of conclusive evidence.
 - Human error
 - Room for more than one possible interpretation
 - Degree of uncertainty and complexity of transactions
 - Practical and/or legal limitations to obtain sufficient appropriate audit evidence
 - Limitations as agreed upon in the engagement letter
 - Auditor not having investigative rights and cannot demand certain types of information
 - Cost-benefit limitations i.e. conducting audit engagement requires resources which the auditor might not have or in the auditor's judgement the cost of gaining additional assurance will be higher than the benefit gained and thus not obtained.
- 6.4** A Zakat audit plan should be drafted to highlight the limitations and controls to mitigate the above limitations or at least acknowledge them in the engagement and report.

Appendix 1: Development Team

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Appendix 2: References

- AAOIFI (2015) - Accounting, Auditing and Governance Standards, Bahrain: Manama
- Beasley et al. (2016) - Auditing and Assurance Services: An Integrated Approach, Pearson
- Russell, J.P. (2007) - The Internal Auditing Pocket Guide, ASQ Press
- IAASB (2018) - Handbook of International Quality Control, Auditing, Reviewing, Other Assurance and Related Services Pronouncements, New York

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