

**Zakat
Governance &
Ethics Principles
Principle No.1
(GPI)**

August 2021

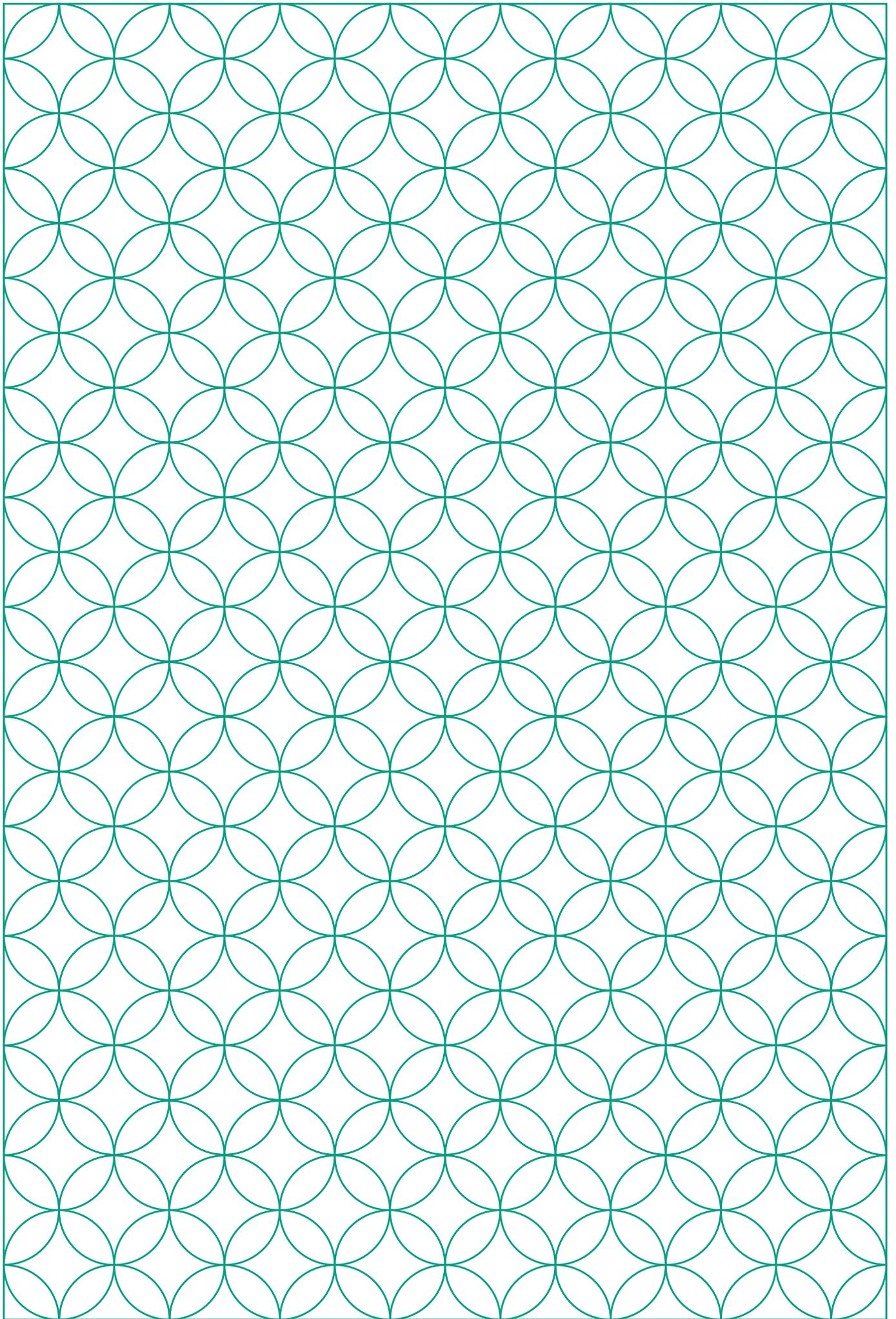


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In The Name Of Allah, The Most Benevolent, The Most Merciful.

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

Zakat organisations play a significant role in collecting and distributing a pillar of Islam, namely Zakat. Zakat does not belong to the Zakat organisation, and in fact acts in the interests of the Zakat payers and the beneficiaries. As such, the organisation acts in a fiduciary duty and owes a duty of a care. Further, given that Zakat is no ordinary payment, but an obligation in Islam, organisations must be all the more prudent and diligent in how they represent themselves and how they serve the society.

Statement of the Practice Principle

1. Objective of this Principle

- 1.1 The objective of this principle is to highlight good governance, best practices, and upright approaches for a Zakat Institution (ZI). This principle only focuses at an organisational level, and will not discuss code of ethics and best practices at an individual level, as that will be covered in another standard.

Note, this principle is not to replace any existing governance standard or code adhered to by a ZI, rather it is to add value by widening the understanding of good governance, accountability and responsibility in light of responsibility of dealing with Zakat and being accountable to Allah.

- 1.2 Every Zakat organisation must adopt and adhere to any governance standard of their respective jurisdictions. This Principle is an addition to existing governance standards to ensure best practice and governance from an Islamic perspective considering that the funds are Zakat.

2. 6 Principles of Good Governance for Zakat Institutions

2.1 Organisation Purpose

The ZI is clear about its Islamic position in the community, its Islamic purpose, accountability to Allah and responsibility. This is in addition to other codes and governance standards which the organisation adheres to, in their jurisdiction for good governance, effective and sustainable operations.

2.2 Leadership

The ZI is led by an effective board that provides strategic leadership in line with Shariah principles and Zakat best practice, corresponding to the organisational purpose, aims and values.

2.3 Integrity

The board and management of the ZI act with integrity, piety, Allah consciousness and create an environment of piety which assists in achieving the ZI's organisational purpose.

2.4 Decision-making, risk and control

The board and management make sure that its decision-making processes are informed, governed, driven and referenced by Shariah principles wherever required, and the control and risk assessment of Zakat non-compliance are established and monitored.

2.5 Board effectiveness

In addition to the appointed board having the skills, knowledge and experience needed to be effective as possible, the board has a mainstream Islamic understanding, values and vision for the organisation.

2.6 Engaging stakeholders and accountability

The ZI is transparent, engaging with stakeholders and understands its Islamic duty and accountability to the Zakat payers as well as its recipients, and the wider stakeholders.

3. Organisation Purpose

Principle

3.1 The purpose of a ZI is to implement the pillar of Zakat wherever it is located. This means that a ZI is by design, serving Zakat through:

- Education
- Calculation
- Collection
- Distribution

Key Outcomes and Recommended Practice

3.2 The ZI implements Islamic values in the organisation to fulfil its purpose of existence and accountability to Allah. The ZI should have a code of Islamic values as part of any employee handbook which address matters such as:

- Justice ('Adl)
- Honesty (Sidq)
- Consultation (Shura)
- Compassion
- Hard work
- Honouring promises (Wafa')
- Righteousness (Taqwa)
- Humility
- Prayer ('Ibadah)
- Kindness
- Unity (Jama'ah)
- Avoidance of wrongdoing (Ijtinab al-Ma'asi)

3.3 The board is clear about the ZI's aims and ensures that controls are in place to lead the organisation in fulfilling its purpose and duty as effectively as possible by utilising the available resources.

3.4 The ZI should have clearly documented governance codes defining its organisational purpose.

3.5 Determining organisational purpose

3.5.1 The board and the management should periodically review the organisation's purpose and the context it operates in, ensuring that it always aligns with Shariah. It should also remain true to the purpose of Zakat and meaningful for all the various Zakat stakeholders.

3.5.2 The board consults Shariah advisors in reviewing the organisation's purpose.

3.5.3 The board leads the development of, and agrees, a strategy that aims to achieve the objectives of the ZI and is clear about the desired outputs, outcomes and impacts.

3.6 Actualising the purpose

3.6.1 All trustees can articulate the Islamic vision and values of the ZI and how it serves Islam, the Muslims and the wider community.

3.6.2 The board evaluates the ZI's impact by measuring and assessing results, outputs and outcomes.

3.7 Analysing the external environment and planning for sustainability

3.7.1 The board regularly reviews the sustainability and Halal nature of all income sources and business models, and their impact on achieving the ZI purpose in the short, medium and longer term.

3.7.2 The board recognises its legal and Islamic responsibilities towards communities, stakeholders, wider society and the environment, and acts on them in a manner which is in line with the principles of Shariah and Zakat best practice.

4. Leadership

Principle

4.1 The leadership of a ZI is conscious about its duty to Allah, the Zakat payers and Zakat beneficiaries, and as such, provides effective and strategic leadership to fulfil the rights of all the stakeholders at an optimal standard.

Key Outcomes and Recommended Practice

4.2 The ZI is headed by an effective board that provides strategic leadership to effectively deliver its aims.

4.3 The ZI's leadership sets the tone, vision, values and reputation in line with Shariah principles.

4.4 The leadership takes primarily responsibility in fulfilling the trust and duty to Allah that

comes with handling Zakat funds. As such, they do everything possible to ensure best practice.

- 4.5 The leadership makes sure that the Islamic values and connotations of Zakat are reflected in all of its work, and that the Islamic ethos underpins the delivery of all activities.
- 4.6 The leadership guides by example in all Islamic values and Islamic practices. For example, being the first to respond to the call of prayer and heading to the Masjid, fasting, giving in charity etc.
- 4.7 The leadership follows the Prophetic character and guidance as much as possible in all organisational aspects and personal aspects.
- 4.8 The leadership is conscientious of their spiritual development and connection with Salah, Qur'an, Dhikr and voluntary prayer.

5. Integrity

Principle

- 5.1 The board acts with integrity which incorporates Sidq (honesty), Amānah (trustworthiness) and Mas'ūliyyah (responsibility). The board adopts Islamic values, applies Islamic ethical principles to decisions and creates a welcoming and supportive culture which helps achieve the ZI's purposes. The board is aware of the significance of the public's confidence and trust in a Zakat institution. It reflects the Islamic ethics and values in everything it does. Trustees undertake their duties with this in mind.

Key Outcomes and Recommended Practice

- 5.2 The board and management safeguard the correct understanding of Zakat and the ZI's reputation by ensuring Shariah and Zakat compliance in all that it does.
- 5.3 Trustees and all staff act with Sidq, Amānah and Mas'ūliyyah.
- 5.4 The board and staff act in the best interests of Islam, Zakat beneficiaries, payers and the wider stakeholders.
- 5.5 The board makes objective decisions about ensuring best practice of Zakat.
- 5.6 The board is not unduly influenced by those who may have special or personal interests. This applies whether trustees are elected, nominated, or appointed. Collectively, the board is independent in its decision making.
- 5.7 The ZI consults with Shariah advisors to uphold the integrity of the ZI and the practices of the ZI.

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- 5.8** Everyone feels safe and respected, and their employment and Islamic rights are honoured in the ZI.
- 5.9** Upholding the Islamic values of the ZI
- 5.9.1** The board ensures that all of its decisions and actions are Shariah compliant and in the best interests of the various Zakat stakeholders.
 - 5.9.2** The board regularly checks whether there are inappropriate power imbalances. If any, this should be addressed immediately.
 - 5.9.3** The board and management adopt Islamic code of conduct and ethics as advised by the Shariah advisors.
 - 5.9.4** The board considers how the ZI is regarded by people and other organisations. There are policies and procedures to ensure that the ZI operates responsibly and ethically, and acts in line with Shariah to achieve its aims.
 - 5.9.5** The ZI should consider following other non-binding rules, codes and standards in their respective jurisdictions to maintain optimal performance and compliance with local best practice.
- 5.10** Dealing with and recording conflicts of interest
- 5.10.1** Disclosures of any actual or potential conflicts of interest are declared which can impact best practice, Zakat operations or Shariah compliance.
 - 5.10.2** A register is maintained recording any interests, hospitality and gifts as part of the disclosure policies.
 - 5.10.3** Admission of any influence by a member of the board or if they feel conflicted in any decision-making setting.

6. Decision-making, risk and control

Principle

- 6.1** The board of the ZI makes sure that its decision-making processes are well-informed by Shariah principles wherever required, are rigorous and timely, and that effective delegation, control and risk-assessment, and management systems are set up to ensure best Zakat practice and Shariah compliance.

Key Outcomes and Recommended Practice

- 6.2** The board is clear that its main focus is on Zakat strategy, overall performance and assurance of Shariah and Zakat compliance, rather than operational matters, and reflects this in what it delegates.

- 6.3 The board has a sound decision-making and monitoring framework which ensures that the ZI's objectives are realised.
- 6.4 The board is aware of the range of financial and non-financial risks it needs to monitor.
- 6.5 The board is aware of potential Shariah non-compliance risks that need to be monitored.
- 6.6 The board promotes a culture of sound management of resources but also understands that being over-cautious and risk averse can itself be a risk and hinder innovation, as long as everything operates within Shariah boundaries and acceptable Zakat practices.
- 6.7 If aspects of the board's role are delegated, the board still maintains overall responsibility and oversight.
- 6.8 Delegation and control
 - 6.8.1 The board regularly reviews what is reserved for the board and what is delegated.
 - 6.8.2 When a third-party supplier or service is used, the board ensures that the agreements are Shariah compliant, and align with the objectives of Zakat.

7. Board effectiveness

Principle

- 7.1 In addition to the appointed board having the skills, knowledge and experience needed to be as effective as possible, the board must have the correct Islamic understanding, values, and Islamic vision for the organisation.

Key Outcomes and Recommended Practice

- 7.2 The board's Islamic culture, behaviour and processes help it to be effective; this includes the board appreciating and dealing with different mainstream views and tolerating valid differences of opinion.
- 7.3 All the trustees have the necessary knowledge of Islam which would be required in meeting their obligations whilst serving this role as a trustee.
- 7.4 All the trustees have appropriate skills and knowledge of Zakat that are efficient and effective whilst serving in such a capacity for a Zakat institution.
- 7.5 The chair of trustees fulfils their role with integrity and enables the board to work as an effective team by developing a value-centric approach where Islamic values are the driver and key to effectiveness.
- 7.6 The board makes decisions with Mashwara (consultation) and through Istikhāra (seeking guidance from Allah). All major decisions should only be taken thereafter.

7.7 The board acknowledges the chair as the Amīr (Responsible) and ensures that their hearts are happy with whatever the end outcome is if it is a matter decided by the Amīr.

7.8 The board works as effective team and therefore:

- Meets as often as needed to remain effective.
- The board regularly discusses its effectiveness and its ability to work together as a team, including individuals' motivations and expectations about behaviours. The motivations are always primarily centred on gaining the pleasure of Allah and serving His creation. Trustees take time to understand each other's motivations to build trust within the board and the chair asks for feedback on how to create an environment where trustees can constructively challenge each other.
- The board collectively receives specialist in-house and/or external governance advice and support as and when required. The board can access independent professional advice, such as Shariah, legal or financial advice if so required.
- The board has, and regularly considers, the mix of skills, knowledge and experience it needs to govern, lead and deliver the purposes of the ZI. It reflects this mix in its trustee appointments, balancing the need for continuity with the need to refresh the board.
- The search for new trustees is carried out, and appointments or nominations for election are made, on merit against objective criteria and considering the benefits of diversity on the board.

8. Engaging stakeholders and accountability

Principle

8.1 The ZI is transparent, engaging with stakeholders and understands its Islamic duty and accountability to Zakat payers as well as Zakat recipients, and the wider stakeholders.

Key Outcomes and Recommended Practice

8.2 The ZI engages with all stakeholders.

8.3 The ZI ensures that the performance and interactions with stakeholders are in line with Sharia principles and values.

8.4 The ZI understands that it is primarily responsible and accountable to Allah, and therefore consults scholars and people of knowledge in guiding its affairs to ensure Sharia compliance.

8.5 The ZI understands it owes a Sharia duty of care to Zakat payers and beneficiaries, and therefore acts in their best interests in all matters.

- 8.6 The ZI understands that it is acting in a fiduciary capacity, and therefore consults key stakeholders regularly.
- 8.7 The ZI takes public trust and confidence very seriously. The board makes sure that there is a strategy for regular and effective communication with these stakeholders about the charity's purposes, values, work and achievements.
- 8.8 The board ensures that stakeholders have an opportunity to hold the board to account through agreed processes and routes, for example question and answer sessions.
- 8.9 The board makes sure that there is a transparent, well-publicised, effective and timely process for making and handling a complaint and that any internal or external complaints are handled constructively, impartially and effectively.

9. Implementation of ZI

- 9.1 The ZI should explain the approach it takes to applying this principle, so it shows consistency for anyone interested in its work as well as transparency. The ZI should adopt an approach of 'apply or explain'. All trustees are encouraged to meet the principles and outcomes of this principle by either applying the recommended practice or explaining what they have done instead or why they have not applied it.

Appendix 1: Development Team

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Azim Kidwai	Director, NZF Worldwide
Professor Habib Ahmed	Board Member, NZF Worldwide
Muhammad Yesilhark	Board Member, NZF Worldwide
Dr Ibrar Majid	Board Member, NZF Worldwide
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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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