
Waqf Governance
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AAOIFI Governance Standard No. 11 “Governance for Waqf” is set out in paragraph 1 – 107. This standard shall be read in conjunction with AAOIFI’s Shari’ah Standard on Waqf.
Islam encourages the institution of Waqf (Islamic Endowment). It is different from normal charitable institutions in a way that it is constituted with long term objectives of preserving the asset(s) so that it may benefit the society in the long run. Historically, Waqf has been one of the important organs in the Muslim society and has played a significant role in the overall prosperity of society and social, as well as, economic development.

In the modern times, with the growth of the activities and the evolution of different forms of Waqf; it is necessary to adopt rules for governance of Waqf in order to achieve the Waqf objectives in a more effective and efficient manner.

It has been observed that there is a big gap and no specific standard is available globally for the good governance of Waqf. Considering this need, AAOIFI Governance and Ethics Board, with the support of Istithmar Al-Mustaqbal (Future Investment) has developed this standard. This standard intends to prescribe and promote a good system of governance for Waqf, in line with the good practices of institutional and Shari'ah governance.
Introduction

Overview

IN1  This standard provides principles-based guidance for the institutional and Shari'ah governance for Waqf and Waqf based institutions.

IN2  This standard provides the core principles of governance as applicable to Waqf and prescribes the principles-based guidance on the institutional and Shari'ah governance. These include the specific considerations for the setup of Waqf, the key responsibilities and principles for establishing terms of reference of different organs of Waqf, including the proposed organs, guidance on internal control, policies and procedures, guidance on transparency and disclosures, etc.

Rationale for issuing this standard

IN3  Governance practices play a vital role in ensuring that businesses are run in a prudent and sound manner. A loss of confidence in the institution of Waqf has the potential to create severe social and economic dysfunction, adversely affecting the general community in which it operates.

IN4  Waqfs are different from both the business oriented entities and other charitable / not-for-profit entities due to their charitable and non-commercial objectives (or eventual objectives), as well as, the concept of sustainability and perpetuity. Their stakeholders are distinct and the institutional setup is different from most other institutions.

IN5  In addition, since there are no globally acclaimed standards available in this area and arguably the lack of the application of, and adherence to, the principles of good governance in these institutions, there is need for a standard in this area. It is also necessary to curb and control any possibilities of corruption (financial or otherwise), as these institutions are entrusted with a great deal of fiduciary responsibilities.
Objectives of the standard

1. The objectives of this standard are as follows:
   a. to promote and strengthen the core values of the Waqfs and their governance practices;
   b. to lay down key principles and concepts of Waqf governance based on best practices in governance, suiting to the specific nature of Waqf; and
   c. to enhance the public and stakeholders’ confidence in the institution of Waqf.

2. It is expected that implementation of good practices of governance, will in turn contribute towards improving effectiveness and efficiency of their operations and maximizing the revenues and return on the institutions’ assets in the short run, as well as, towards their growth, perpetuity and sustainability in the long run.

Scope of the standard

3. This standard shall be applicable on all types of Waqfs and other institutions constituted on the concept of Waqf, irrespective of their legal status. This standard, insofar as it relates to, may also be applied by other charitable and not-for-profit organizations, not constituted on the principles of Waqf. The family Waqfs are excluded from the scope of this standard. However, they may apply this standard on a voluntary basis.

4. It is understood that there cannot be a one-size-fits-all sort of governance solution for Waqf. Accordingly, the specific structure for an individual Waqf shall be developed based on the principles provided in this standard, considering the nature and relative size in terms of resources and operations of the Waqf.

Definitions

5. For the purposes of this standard, the following terms have the meanings attributed below:
   a. beneficiary – is the person (natural or juristic) entitled to the disbursement of the Waqf’s benefits (arising from return on assets or revenue) in accordance with the provisions of the Waqf deed;
b. board of custodians – a board comprising individuals who are appointed collectively as custodian of a Waqf;

c. custodian (Nazir or Mutawalli) – whether an individual or a board or authority, who is eventually responsible for the management of the Waqf, supervising it, and distributing its benefits in line with the objectives of the Waqf and conditions, if any, of the Waqif;

d. internal controls – for the purpose of this standard shall be considered the systems and processes established by the Waqf, duly approved by those charged with governance and senior management, for assuring achievement of the Waqf’s objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies, particularly, the Shari’ah principles and rules (which shall prevail in case of conflict);

e. management – for the purpose of this standard is an organ, or combination of organs, that manages Waqf’s operations and resources (including human resources). Management’s functions include, inter alia, risk assessment, objective setting, planning, organizing, staffing, leading or directing, and controlling a Waqf. Management includes such custodian (or member of board of custodians), volunteers and employees who are involved in the above-mentioned functions, irrespective of their designations, or remuneration being paid, and may also refer to departments and / or the whole organizational management collectively;

f. senior management – for the purpose of this standard represents collectively the group of most senior members of management who are responsible for the overall decision making for the Waqf, individually or collectively;

g. those charged with governance – in line with the IESBA pronouncement, are “the person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager”1. In the specific context of Waqf, the custodian, along with any committees formed by custodian for this purpose, collectively shall be considered to be ‘those charged with governance’;

h. Waqf – means dedicating the corpus2 of an asset and making available its benefits to defined beneficiaries. In practice, it reflects an institution established for a defined

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1International Ethics Standard Board for Accountants (IESBA) pronouncement on the definition of those charged with governance.
2The core property including any movable or immovable asset(s).
purpose (whether private or public or both), usually, but not necessarily, for charitable objectives;

i. Waqf deed – is the constitution document of a Waqf, evidencing the transfer of the ownership of the Waqif’s asset to the Waqf and containing the objectives of the Waqf and conditions, if any, of the Waqif; and

j. Waqif (principal donor of Waqf) – a person (natural or juristic) eligible from legal and Shari’ah perspectives, who establishes a Waqf and allocates an asset that he owns, to the Waqf.

6. All other terms used shall have the same meaning as assigned to them in respective AAOIFI standards, particularly the Shari’ah Standard No. ___ “Waqf”.

**Part A: Key pillars and principles for governance of Waqf**

**Basis for governance**

7. Governance deals with a wide range of aspects including those relating to social responsibility, business ethics and culture, accountability for those charged with governance and the management as well as the respective roles of other parties carrying out a functional role in relation to a Waqf’s operations. These roles have a bearing on how the Waqf’s operational strategies, policies, operations or control frameworks are designed, implemented and monitored.

8. The principles of governance shall be established suiting to the nature of the entity (Waqf in this case) and shall be built upon the four key pillars of governance, namely: accountability, fairness, transparency and responsibility.

9. Governance practices for Waqf shall be defined and practiced differently depending upon the relative Shari’ah requirements, national and regulatory approaches, legal systems, cultural influences, powers of Waqif, custodians, management, etc.

10. For the governance structure to be effective, it is imperative to consider the Waqf’s unique operational model characteristics.

**Ownership**

11. Conceptually the ownership of a Waqf belongs to Allah Almighty, alone. This changes the overall concept of governance for such institutions whereby the governance principles are established keeping this concept as centric.

**Enhancing confidence**

12. Trust and fiduciary relationship is the foundation upon which a Waqf is constituted.
13. The interest of those who have effective control over a Waqf can differ from the objectives of Waqf and the intentions of those who supply seed capital and other funding, making sound governance structures necessary.

14. Sound governance practices serve to enhance public confidence and therefore, it is necessary that those charged with governance as well as those having an influence on them pay appropriate attention. Confidence in a Waqf cannot be developed without several important measures, one of which is a transparent governance structure.

15. Different organs of governance and the management have to strive to enhance confidence and trust which are vital to the sustainability of the Waqf’s operations.

**Shari‘ah compliance**

16. Governance in the context of a Waqf expands beyond the boundaries of ‘corporate governance’ in the conventional context since it has social and religious connotations to it as well. The choice of constituting, and donating to, a Waqf gives due weightage to Shari‘ah compliance of the operations of the Waqf. Accordingly, a Waqf must have mechanisms to comply with Shari‘ah in all of its financial and operational aspects.

**Stakeholders’ interests and objectives of Waqf**

17. It is important for those charged with governance to understand who the key stakeholders are in order to allow the establishment of a governance structure that is characterized by high levels of accountability.

18. The key stakeholders of a Waqf generally include the following:
   a. the Waqif – individual or association of Waqifs;
   b. the beneficiaries;
   c. the custodian and others (those charged with governance);
   d. the management;
   e. the human resources – including employees and volunteers;
   f. the suppliers and customers (creditors and debtors); and
   g. the society (including the community and public at large).

19. Those charged with governance (including the custodian) are accountable towards the interests of all key stakeholders of the Waqf in line with the objectives of the Waqf.

20. A Waqf should therefore understand and respond to the transparency needs of its stakeholders. For this, those charged with governance and management of the Waqf should ensure that its stakeholders and their respective interests are recognized.
21. A Waqf’s interaction with stakeholders is significantly dependent on dissemination of timely and sufficient financial and non-financial information regarding its operations and performance.

**Operational model**

22. The operational model of a Waqf is characterized by its constitution documents that is destined to achieve specific objectives (normally non-commercial but at times a combination of commercial and non-commercial). Such operational model is designed to be compliant with Shari’ah. Collectively these specific characteristics make it unique and different from both, the for-profit entities and the conventional charitable and not-for-profit institutions.

23. It is imperative that the Waqf assets should be protected and safeguarded, while catering to the interest of the intended and eventual beneficiaries. The whole operational mode of Waqf institution revolves around this balance and is different from that of commercial institutions, as well as, certain non-commercial charities and not-for-profit institutions.

**Social responsibility**

24. The governance structure shall aim to align, as nearly as possible, the interests of the stakeholders, of those charged with governance and of the society.

25. The principles of Shari’ah strike a balance between the interest of the individual, or a group of individuals and those of the society to which they belong. Waqfs shall use their resources in a manner beneficial to their stakeholders as well as to the community at large.

**Business ethics and culture**

26. Codes of ethics in a Waqf comprise values that are derived from Shari’ah. Such values underpin the behavior of all persons employed by or associated with the Waqf in carrying out or undertaking their respective duties or obligations.

**Key pillars of institutional governance**

27. Key pillars of institutional governance are in line with Islamic good practices of governance. The pillars (b) to (e) outlined below also coincide with the OECD\(^3\) principles.

   a. Shari’ah compliance – whereby all the organs of the governance including management shall ensure that the overall operations of the institution are in line with the Shari’ah principles and rules;

   b. accountability – whereby all the organs of governance including management shall have accountability for their respective functions;

   c. fairness – whereby all the stakeholders shall be treated fairly;

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\(^3\) Organisation for Economic Co-operation and Development
d. transparency – whereby the affairs of the organization shall be transparent and financial and operational reporting shall be performed in a manner that nothing material or of significance is concealed from respective stakeholders; and

e. responsibility – the organization and its organs of governance and management, shall all, function in a responsible manner towards stakeholders and society / community at large.

Principles of governance

28. The key principles of governance for Waqf developed in line with the principles of institutional governance established by AAOIFI and categorized according to the five pillars of institutional governance are summarized in Table 1 in Appendix C, Part E.

Setting-up and applying governance structures on individual Waqf

29. A Waqf shall use due diligence and care in translating and applying the principles contained in this standard while laying down and enforcing policies and rules for adoption. The same shall comprise all or some of the following that a Waqf finds necessary to adopt amongst the principles laid out herein:

a. a process through which the governance objectives of the Waqf are set, and the means of attaining those objectives and monitoring performance are determined;

b. a mechanism for efficient use of resources and equally to require accountability for the stewardship of those resources;

c. a system by which the Waqf is governed and managed while encouraging it to create value (monetary and non-monetary), provide accountability and establish control systems that commensurate with risks involved; and

d. a system of checks and balances for ensuring that those charged with governance and management act in the best interests of the Waqf’s stakeholders for producing long-term value (monetary and non-monetary) to the Waqf’s stakeholders while maintaining the highest standards of ethics and professional conduct.

Enablers of good governance

30. Governance is concerned with a variety of interactive qualitative elements including aspects of human values and human behavior and thinking abilities. Integrity is an important human characteristic upon which successful governance processes impinge.

31. Persons with high integrity are more likely to promote more transparent behavior in their day-to-day performance of their respective roles in furtherance of the overall goals of the Waqf. Thinking abilities of those charged with governance and management also come to
the fore in the day-to-day processes involved in relation to activities relating to strategic planning and decision making, etc.

32. Accordingly, there is no one-size fits all structure that would guarantee effectiveness or soundness in governance frameworks. Moreover, good governance is not just a matter of prescribing a particular set of policies and rules or a matter of complying with the same.

Part B: Waqf governance and management structure

Organs of governance and management

Organs of governance

33. This standard does not prescribe strict governance rules. It is, however, noted that a normal Waqf of a reasonable size in terms of resources and operations, shall have the following organs of governance:

a. Waqif – individual or association of Waqif (see paragraphs 36 - 40);

b. custodian and others (those charged with governance), including

i. custodian (see paragraphs 45 - 57);

ii. audit and governance committee (see paragraphs 68 - 70);

iii. other committees that may be formed by the custodian;

c. Shari'ah supervisory function (see paragraphs 71 - 76);

d. internal audit function (see paragraphs 81 - 88); and

e. external auditor (see paragraph 100 - 106).

Management

34. A Waqf shall have an executive arm in the form of an appointed management, commensurate with the respective size in terms of resources and operations. The management may comprise employees (paid) or volunteers or a combination of both.

35. Depending on the nature and respective size in terms of resources and operations, a Waqf may have an appointed principal executive (for example, a chief executive officer / secretary general or honorary secretary (if appointed on an honorary basis)).

Waqif (principal donor of Waqf)

Characteristics and nature of the Waqif

36. A Waqif may be a natural person or a juristic person or an association of persons (individuals and / or juristic persons).
By virtue of creating the Waqf, the Waqif becomes the highest authority in a Waqf institution, subject to the terms and conditions of the Waqf deed.

Rights and responsibilities

The Waqif, subject to the requirements of Shari’ah principles and rules, shall have the following rights and responsibilities:

a. preparation and execution of the Waqf deed – including the conditions that help in achieving the objectives of the Waqf and any other conditions as he may prefer to determine consistent with the prime objective(s) of the Waqf and Shari’ah principles and rules; and

b. determining the vision, mission and strategic objective of the Waqf, in line with the overall objectives of the Waqf; and

c. either:

i. governance and management of the Waqf unless prohibited by the law of the respective jurisdiction; or

ii. appointment of custodian (see paragraphs 45 - 57), in which case he may supervise the work of the custodian and may have other rights and powers provided by the Waqf deed.

During the lifetime of the Waqif (being an individual) or perpetually, in case of Waqif being a juristic person or an association of persons, the Waqif shall generally have the following rights:

a. access to timely and pertinent information with regard to the financial and operational performance of the Waqf;

b. defining the use of surplus funds, if any, and if permitted by applicable law(s), rules and regulations of the relevant jurisdiction;

c. to appoint, suspend and remove a custodian; and

d. to make changes to the Waqf deed to the extent permissible for amendment therein.

If a custodian is not appointed or if the Waqif, in line with the Shari’ah principles and rules and stipulations of the Waqf deed, has suspended or removed the custodian, all the rights and responsibilities related to the custodian shall revert to the Waqif.

Beneficiaries

The beneficiaries of the Waqf shall be determined by:
a. the Waqif in the manner provided in the Waqf deed (or as amended from time to time, if the Waqf deed provides the right of amendment, duly considering the objectives of the Waqf); and

b. the custodian, in line with Shari’ah principles and rules, if the Waqif has not defined them or if the beneficiaries defined by Waqif are no more available / alive, or no more meet the conditions laid down by the Waqif for this purpose, consistent with the objectives of the Waqf.

42. The Waqf shall notify the beneficiaries of the Waqf and the conditions of eligibility as beneficiary, if applicable.

43. In case of no determinable beneficiaries, the revenues and return on assets of Waqf shall be allocated and applied to the charitable activities by the custodian, in line with the Shari’ah principles and rules, duly considering the objectives of Waqf.

44. While determining the beneficiaries in line with the objectives of the Waqf, the Waqif or the custodian, as the case may be, shall preferably consider comparative needs of various beneficiaries with respect to different factors, such as time and location.

**Custodian and others (those charged with governance)**

45. Every Waqf must have a custodian (unless, as in rare circumstances, the Waqif has kept the governance and management rights to himself). The custodianship may take either of the following forms:

a. custodianship by way of board of custodians (by whatever name called) – strongly recommended by this standard;

b. individual custodianship;

c. custodianship of a juristic person; and

d. state custodianship.

46. Unless a specific type of custodian is mentioned in this standard for a specific requirement, the general provisions related to custodian shall be applicable to all kinds of custodianships, subject to any specific legal or corporate regulatory requirements.

**Principal rights and responsibilities of the custodian**

47. The custodian is the representative of the Waqf from both, Shari’ah and legal perspectives. It is the highest authority of the Waqf, in which all authority and powers of the Waqf, are vested.

48. The custodian shall be responsible to govern, supervise (and where applicable, manage) and to conduct the affairs, take care of development, perpetuity and sustainability of the Waqf.
49. The custodian shall take care of the rights and responsibilities of all stakeholders within the objectives of the Waqf, and shall comply with Shari’ah principles and rules and the laws and regulations of the respective jurisdiction.

50. The custodian may take all the necessary decisions that are in the interest of the Waqf, achieve the conditions stipulated by Waqif of the Waqf and its objectives, and the interests of beneficiaries, but should generally follow a systematic approach towards all matters in line with the requirements of this standard and good governance practices.

**Establishing and supervising governance and control mechanism**

51. The custodian shall establish a good system of institutional and Shari’ah governance, in line with the requirements of this standard.

52. The custodian shall also be responsible for implementing the conditions of the Waqf, adhering to the limits specified by it, working on the growth, perpetuity and sustainability of the Waqf, defending its rights, and abiding by Shari’ah and related regulations and applying ethical standards in exercise of all their duties.

53. The custodian shall approve, and monitor compliance of, the principles, policies, procedures, risk management measures and controls for the affairs of the Waqf and its operations. These shall include a document on the financial and administrative powers delegation (authority matrix), and other suitable policies.

54. In line with the requirements of the Waqf deed, the custodian shall define the decision-making mechanisms in respect of pertinent matters. These shall include the approach followed by the custodian (including the board of custodians) and others amongst those charged with governance and senior management, considering the nature and the respective size in terms of the resources and operations of the Waqf.

55. The custodian shall ensure, and cause to ensure, as the case may be, that the Waqf and organs of governance and the management, respectively, comply with the Shari’ah principles and rules and the requirements of good governance, ethical principles and laws and regulations.

**Establishment of control framework**

56. The custodian shall also establish and cause to implement and follow a control framework in line with global best practices (e.g. the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO’s) – Internal Control – Integrated Framework). Determination of suitable framework and policies and procedures shall be commensurate with the nature and relative size of the resources and operations of the Waqf.

57. The custodian shall ensure that such policies are developed, documented, communicated, implemented and updated, as necessary, by the management who shall be principally responsible for the same.
Risk management policy

58. Those charged with governance shall cause to develop and adopt a risk management policy in line with global best practices including, inter alia, the following:

   a. defining overall risk appetite and risk management strategy for the Waqf with regard to the objectives of Waqf considering its resources;
   
   b. identifying potential significant risks to the Waqf including probability of occurrence, and degree of severity of the same;
   
   c. defining strategy for dealing with such potential significant risks including techniques and solutions to be taken to detect and mitigate such risks, including:
      
      i. risks to be avoided and prevented;
      
      ii. risks to be transferred and hedged; and
      
      iii. risks to be taken on a calculated basis within tolerable limits.

Investment policy

59. Those charged with governance shall adopt an investment policy in accordance with the good practices, as well as, the risk management policy of the Waqf, particularly taking into account the following:

   a. balance between the revenue and cash flows against the sustainability and perpetuity of the Waqf;
   
   b. the investment objectives established in line with the risk management policy, duly:
      
      i. producing relatively stable cash flows;
      
      ii. preserving the intrinsic value of the assets and investments; and
      
      iii. achieving a rate of return consistent with the acceptable level of risk.
   
   c. Asset allocation approach considering:
      
      i. target markets – taking into account the balance between the various economic data and in particular changes in prices, currency values fluctuation and inflation rates and rates of return till maturity;
      
      ii. target weights according to different asset classes commensurate with the risk management policy;

iii. liquidity profile of different assets;

d. criteria for selecting external investment managers and independent investment consultants; and

e. applicable Shari’ah principles and rules.

Appointment of committees

60. When appropriate, the custodian shall establish permanent or temporary committees to perform functions serving the Waqf and supporting the functions of the custodian, in line with the requirements of this standard. Collectively, the custodian along with such committees, has been referred to as “those charged with governance” in this standard. The custodian shall have the right to fully supervise the work of its various committees, and may request any information or reports, and may take the necessary decisions with appropriate powers.

61. The custodian shall also have the right to restrict any powers granted and delegated to the committees.

Appointment of management

62. The custodian shall appoint management to manage the Waqf and assign them rights and responsibilities along with relevant limits in order to ensure smooth functioning of the Waqf’s affairs.

63. The custodian shall also have the right to restrict any powers granted and delegated to the management or a specific person within management.

Right to information

64. The custodian shall have the right to the unhindered and timely access to all (without any exception) information and records with regard to the affairs of the Waqf, as may be deemed necessary by the custodian. The committees and the senior management shall ensure a mechanism of reporting to the custodian. They shall also be required to disclose to the custodian any material and significant matter relating to the Waqf as soon as practicable, within a reasonable timeframe in line with the guidance set out by the custodian for this purpose.

Investments and safeguard of assets

65. The custodian is eventually responsible for safeguarding the assets of the Waqf and its sustainability and perpetuity in the long run. The custodian shall ensure at all times that the Waqf is able to meet its obligations. For this purpose, the custodian shall define policies and procedures, particularly including the investment policy considering the relevant risks, and monitor their respective compliance, as well as, delegate authorities and responsibilities to the committee(s) and senior management and ensure effective supervision of their functioning.
66. The custodian shall adopt necessary indicators for monitoring, accountability and performance evaluation, of the Waqf, and the organs of governance and management and shall ensure monitoring and accountability of the same.

Remuneration to the custodian

67. The custodian, including the members of the board of custodians, if permissible by the law, rules and regulations of the respective jurisdiction, may be entitled to not more than a fair remuneration for the services in respect of the custodianship of the Waqf, in line with the principles and limits defined in the Waqf deed or the relevant policy established by the custodian, or as per comparable fair market practice.

Audit committee

Constitution and independence

68. The custodian shall establish an independent audit committee in line with the provisions of this standard, and the requirements of AAOIFI GSIFI No. 4 “Audit and Governance Committee for Islamic Financial Institutions” insofar as these are considered applicable to the institution of Waqf and are not inconsistent with any specific provision of this standard.

69. All the members of audit committee shall be independent of the Waqf and the management. The majority of them, including the chairman, shall be independent of the custodian as well, if the custodian is not in the form of board of custodians. The Waqif may be member of the audit committee, if not involved in active management of, or having business relationship with, the Waqf.

Terms of reference

70. The audit committee of the Waqf shall establish its terms of reference, and shall have them approved by the custodian, in line with:

a. the responsibilities delegated to the audit committee, by the custodian with regard to the responsibilities of the custodian in respect of the safeguard of assets and investment of the Waqf and its sustainability and perpetuity in the long run, as well as, those related to the transparency and disclosure; and

b. the AAOIFI’s GSIFI No. 4 “Audit and Governance Committee for Islamic Financial Institutions” insofar as these are considered applicable to the institution of Waqf.

Shari’ah supervisory function

71. The Shari’ah supervisory function of a Waqf, taking into consideration the nature and the relative size in terms of resources and operations, shall generally comprise the following:

a. Shari’ah supervisory board (SSB);
b. management’s responsibility with regard to Shari’ah compliance – which may include establishing an internal Shari’ah compliance function, if considered necessary; and

c. internal Shari’ah audit function – as a part of the internal audit function (see paragraphs 81 - 88).

*Shari’ah supervisory board (SSB) Constitution*

72. The Waqif in the Waqf deed, or the custodian – in the absence of Waqif, or if not stipulated in Waqf deed, shall constitute a Shari’ah supervisory board for the purpose of attaining assurance that all relevant affairs of the Waqf are in line with the Shari’ah principles and rules. Considering the nature and the relative size in terms of resources and operations of the Waqf, the Shari’ah supervisory board of a Waqf may comprise one or more members.

73. Shari’ah principles and rules for the purpose of this standard shall constitute the Shari’ah principles and rules contained in AAOIFI’s Shari’ah standards and the Fatawa and rulings of the Shari’ah supervisory board of the Waqf.

*Terms of reference and independence*

74. The Shari’ah supervisory board, considering the nature of activities and affairs of the Waqf, shall establish (with the assistance of the management), its terms of reference considering the requirements specific to Waqf including the matters related to beneficiaries and distribution of the Waqf benefits and the custodian etc., along with other financial and related matters. The terms of reference shall be established considering any specific needs of the custodian, and the requirements of AAOIFI’s GSIFI No. 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” and GSIFI No. 2 “Shari’ah Review”.

75. The Shari’ah supervisory board shall establish the principles of independence and ethical requirements applicable on itself considering the requirements of the AAOIFI’s GSIFI No. 5 “Independence of the Shari’ah Supervisory Board” and AAOIFI’s respective code of ethics.

*Report*

76. The Shari’ah supervisory board shall issue an annual report embodying its opinion with regard to the state of compliance of the Waqf with respective Shari’ah principles and rules.

*Management*

77. The custodian shall appoint management comprising competent, professional individuals to manage the day-to-day affairs of the Waqf in accordance with the objectives of Waqf and be commensurate with the nature and size in terms of resources and operations of the Waqf.

78. Depending on the nature of work, the management may comprise the employees of the Waqf or volunteers or a combination of both.
79. Those charged with governance shall:
   a. define approved organizational structure and delegate the authority to the management as deemed fit to assist in carrying out the work efficiently; and
   b. provide adequate instructions, from time to time, to the management to develop and implement operational and financial plans.

80. The management, led by senior management, wherever applicable, shall be responsible for:
   a. making administrative decisions necessary for the day-to-day management of the Waqf, whose financial implications are within the permissible ceiling determined by those charged with governance;
   b. exercising all powers necessary to manage the Waqf—under the supervision of those charged with governance— and to represent the Waqf in its relationship with others, and to conclude all types of contracts, in accordance with their powers assigned by those charged with governance;
   c. managing assets and finances of the Waqf including preparing investment plans and making all investment decisions within the powers assigned by those charged with governance;
   d. preparing the strategic, operational and financial plans for the Waqf in line with the objectives of the Waqf and the authority and conditions specified by those charged with governance;
   e. ensuring compliance with the requirements of the Shari'ah principles and rules, the Waqf deed, the applicable laws, rules and regulations and the governance and control policies and procedures in the routine operations and the affairs of the Waqf; and
   f. fulfilling the reporting and financial reporting requirements on the Waqf in line with this standard, and other applicable standards, laws, rules and regulations.

**Internal audit**

81. Those charged with governance shall establish an internal audit function, which shall be functionally reporting to the audit committee or the custodian (if there is no audit committee). Administratively the internal audit function shall be reporting to the senior management.

82. The internal audit function shall follow insofar as practicable, the “International Standards for the Professional Practice of Internal Auditing” issued by the Institute of Internal Auditors.
83. The internal audit function shall aim to obtain reasonable assurance that the internal control systems of the Waqf are functioning efficiently and effectively with regard to the following in particular:

a. safeguard of assets and resources of the Waqf;

b. reliability of financial and operational information of the Waqf;

c. compliance with internal standards, policies and regulations;

d. adequacy of risk management function within the Waqf; and

e. relative efficiency and effectiveness of operations.

84. Considering the factors defined in paragraph 83, and other requirements of this standard, the internal audit function shall develop a charter and annual plans to be submitted to and approved by the custodian on recommendation of audit committee. The charter of internal audit function shall include, as a minimum, the responsibilities, scope of work, terms of reference, working procedures, reporting mechanism, frequency of reporting, etc. for the internal audit function.

85. The internal audit function shall provide adequate resources, commensurate with the nature and relative size of the resources and operations of the Waqf, as well as, the scope of the internal audit function. Adequacy of resources shall be determined in terms of both the qualification and experience of the team, as well as, the number of team members and other resources including means, tools and equipment as may be needed to carry out their work efficiently.

86. Internal audit function shall adhere to AAOIFI’s respective code of ethics5 as well as any other professional code of ethics and conduct applicable in their respective jurisdiction.

**Internal Shari’ah audit**

87. The internal audit function shall also include the internal Shari’ah audit function, depending on the nature of operations and transactions of the Waqf. Necessary guidance shall be obtained from AAOIFI’s relevant standard on internal Shari’ah review / audit.6

**Outsourcing internal audit / internal Shari’ah audit function**

88. Considering the nature and respective size of the resources and operations of the Waqf, those charged with governance may decide to outsource, wholly or partially, the internal audit / internal Shari’ah audit function to a professional services provider, being a firm or an individual.

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5 Presently, the Code of Ethics of the Accountants and Auditors of Islamic Financial Institutions

6 Presently, GSIFI No. 3 “Internal Shari’ah Review”
Part C: Transparency and disclosure

Significance of transparency and disclosure in the context of good governance

89. An important objective of a governance structure shall be to provide accurate, adequate and timely information so as to allow various stakeholders to make informed decisions about the achievement of objectives, the operational performance, social and financial impact, their rights and continued association with the Waqf, etc.

90. The affairs of the Waqf shall be transparent in all aspects and such transparency shall be demonstrable, and duly demonstrated through the transparency and disclosure approach adopted as a part of the governance structure.

91. Waqf shall ensure adequate level of transparency and disclosures to its stakeholders, through the following:
   a. disclosure and transparency policy;
   b. regular communication;
   c. annual reports;
   d. financial reporting; and
   e. external audit.

Disclosure and transparency policy

92. The Waqf should adopt and follow a policy of disclosure and transparency, in line with this standard including, for example, the following:
   a. the degree of disclosure of the information to the public related to the Waqf, which outlines its vision, mission, objectives, activities, custodian and management;
   b. the degree of regular information sharing with stakeholders (see paragraph 94); and
   c. the contents of the annual report (see paragraph 95).

93. The policy for disclosure and transparency shall include the ethical principles applicable on the public disclosures, public relations and media management. These principles shall be based on:
   a. the overall code of ethics of the Waqf (see paragraph 86);
   b. truthful, fair and unbiased information dissemination; and
c. avoiding self-projection and self-praise for the Waqf institution, as well as, for Waqif, those charged with governance and senior management, as it may conflict with the objectives of the Waqf.

Regular communications

94. The Waqf shall ensure adequate level of regular communication to the stakeholders regarding its operations and activities. The means of regular communications may, inter alia, include newsletters, social media, print and electronic media and website etc.

Annual reports

95. The Waqf shall issue annual reports to its stakeholders, in line with the good practices and legal and regulatory requirements of the respective jurisdiction, including as a minimum the following:

a. the financial statements for the year, along with the external auditor’s report thereon;

b. a report by the custodian including:

i. custodian’s comments on the financial performance over the year, as well as, over a longer period of time (including tables, charts and graphs enabling the user of the annual report to be able to comprehend the financial performance over time);

ii. custodian’s comments on social impact of the Waqf’s operations over a longer period of time (including tables, charts and graphs enabling the user of the annual report to be able to comprehend the operational performance over time and the social impact that it has created);

iii. summary of the activities of the Waqf;

iv. summary of the investment activity and the main risks associated with it; and

v. summary of the grants received and grants granted by the Waqf to beneficiaries – duly segregated by nature of funds and grants.

c. a report of the Shari’ah supervisory board based on its review of Shari’ah compliance of the Waqf (see paragraph 76).

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7 For example, the guidance from the “International Integrated Reporting Council (IIRC)”
Financial reporting

Financial reporting principles

96. The financial reporting principles including the policies and procedures for accounting and financial reporting and the significant accounting policies shall be established by the Waqf in line with the following, and in the preference provided by the hierarchy below:

a. financial accounting standard issued by AAOIFI on Waqf (if any);

b. financial accounting standards issued by AAOIFI as may be applicable on different transactions and affairs of Waqf; and

c. generally accepted accounting principles in the jurisdiction, insofar as, the same do not contravene with the Shari'ah principles and rules.

Fairness and transparency in financial reporting

97. The Waqf shall ensure that the financial reporting process is established on the principles of fairness and transparency. The Waqf shall opt for optimal disclosures and transparency in the matters where judgments are applied.

98. The accounting policies of the Waqf shall be established and the related accounting and book keeping shall be performed in a manner that adequate principles of fund accounting are observed with regard to the different categories of the fund contained within the Waqf, particularly, if the Waqif’s intentions or the beneficiaries are different. Adequate attention needs to be drawn to the accounting for Zakah and other charity funds kept with the Waqf, and the financial reporting shall ensure their adequate disclosure in line with the principles applicable on their respective investments, safekeeping and disbursement.

99. Good practices of reporting of related party transactions and conflict of interest shall be followed. Additionally, the financial reporting shall be performed in a manner that the costs attributable to the management of Waqf and particularly to the senior management of the Waqf and where applicable, to the custodian and those charged with governance of the Waqf are separately reported in a fair and transparent manner.

External audit

100. The Waqf shall appoint an external auditor duly eligible to perform such services under the regulations of respective jurisdiction having the necessary competence and enjoying good reputation to perform an audit of financial statements of the Waqf.

101. The appointment, agreement on scope of audit and determination of remuneration of the external auditor shall be carried out (where applicable, based on the recommendations of the audit committee) by:
a. the Waqif being an individual, if he is alive and not involved in day to day operations and administration of the Waqf; or

b. the general assembly of members, if Waqif is not an individual; or

c. the custodian, if both of the above conditions are not met.

102. Appointment of the external auditor of the Waqf, on the recommendation of the audit and governance committee, if so authorized by the Waqif or in the absence of Waqif.

103. The external auditor shall perform its audit in accordance with the Auditing Standards for Islamic Financial Institutions (ASIFI) issued by AAOIFI read with International Standards on Auditing (in respect of matters not specifically addressed by ASIFI).

104. In addition to the normal scope of audit, the external auditor shall additionally report in his report (as a part of other matters) as to whether, in his opinion:

a. the revenue, expenditure and operations of the Waqf during the period under audit had been in line with the objective(s) of Waqf; and

b. the assets of Waqf have been adequately safeguarded.

105. The external auditor shall be entitled to attend the meetings of the board of custodians and general assembly of members (as applicable) where the annual report and the financial statements of the Waqf are placed or discussed, and shall be given reasonable opportunity of reciting his report and present his opinion as applicable.

Quarterly or half-yearly reviews

106. Considering the nature and size of the Waqf, the custodian may decide to request the external auditor to perform periodic review of interim condensed financial statements in line with the requirements of International Standard on Review Engagements (ISRE) 2410, “Review of Interim. Financial Information Performed by the Independent Auditor of the Entity” on a quarterly or half-yearly basis.

Effective date

107. This standard shall be effective on Waqfs for the financial periods beginning on or after 01 January 2020. Earlier application is encouraged.

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8 Issued by The International Auditing and Assurance Standards Board (IAASB)
APPENDICES

Appendix A: Adoption of the standard

This standard was presented for the approval in the AAOIFI Governance and Ethics Board’s meeting No. ____ held on _______ 1440H corresponding to ________ 2018 and was duly approved and adopted.

Members of the board

1. Dr. Ishrat Husain – Chairman
2. Sh. Esam Ishaq – Deputy Chairman
3. Dr. Abdulbari Mashal
4. Dr. Abdurrahman Habil
5. Mr. Ahmad Mishari Al Faris
6. Mr. Ebrahim Sidat
7. Mr. Fawad Laique
8. Dr. Gaffar Abdalla Ahmed Khalid
9. Mr. Hasan Gul
10. Dr. Hussein Said Saifan
11. Mr. Mohammad Farrukh Raza
12. Mr. Mohammad Mahdy Mohammad Radwan
13. Mr. Kazi Mohammad Mortuza Ali
14. Mr. Sohaib Umar
15. Dr. Walid Hegazy

Reservation

The standard was approved unanimously.

Working group members

1. Mr. Ebrahim Sidat
2. Dr. Gaffer Khalid
3. Dr. Hussain Saifan
4. Dr. Walid Hegazy

Executive team

1. Future Investment Team
2. International Institute of Islamic WAQF (IIIW) Team
3. Mr. Omar Mustafa Ansari (AAOIFI)
4. Mr. Mohammad Majd Bakir (AAOIFI)
5. Ms. Zahra Jassim AlSairafi (AAOIFI)
6. Mr. Syed Siddiq Ahmed (AAOIFI)
Appendix B: basis for conclusion
[to be updated]

Appendix C: applications guidance

This application guidance contains the illustrative and suggested terms of reference of different committees to be formed by those charged with governance / the custodian, the illustrative contents of the Waqf deed and principal requirements thereof, and the suggested contents of various significant governance and internal control policies.

Part A: what is Waqf?

AG1 Waqf means withholding an asset and donating its benefits. These benefits may be allocated for a charitable purpose, public and/or private.

Charity, private and shared Waqf

AG2 If the Waqf benefits are paid to general charitable activities, it is a charitable Waqf. If the Waqf beneficiaries are private, it is a private Waqf and if the beneficiaries are public and private, it is a joint Waqf. And the Waqf is a family Waqf if the benefits belong to the offspring.

AG3 Where the entitlement hierarchy would end, so that thereafter the Waqf will be directed to general public beneficiaries as determined by the Waqif or as the administrator is authorized by the Waqif to do so.

AG4 In family Waqf, – in cases where there is money to be inherited – the Waqif should put limitations that give the beneficiaries the right to the yield, only in cases where there is need and the excess of the yield shall be distributed in general charitable activities that is determined by the Waqif.

AG5 It is recommended that the Waqif should not limit the allocation of the Waqf yield to its offspring only, and make it a joint Waqf with public bodies. It is preferable that the Waqf deed - in the private and joint Waqf - gives the beneficiaries the right to view the annual report prepared by the custodian, and should include the main elements mentioned in paragraph AG13.

The juristic personality of the Waqf

AG6 The Waqf has a juristic personality from the Shari'ah perspective. Given the constraints as per respective jurisdictions’ laws and regulations, the Waqf shall have an independent juristic personality and a separate financial edict, from the Waqif, the beneficiaries and from the custodian.
In case of establishing the Waqf, the measures and procedures that guarantee this shall be taken in accordance with the laws of the country. It may take different legal forms according to the respective jurisdiction’s laws and regulations including a Waqf, a trust, a cooperative society, a company or corporation etc.

**The nature of the Waqf assets and their selection criteria**

The Waqf assets shall be long-term assets to achieve greater benefit through it.

The assets shall be owned by the Waqif (ownership as defined legally and by Shari’ah), and that it is at the absolute disposition of the Waqif.

The choice of Waqf assets should be considered as a beneficial asset or an asset that can be invested to achieve income that is proportionate with the risks associated with such investment.

**Waqf documentation**

The Waqif must prepare a document containing the term of the assets to be used as Waqf, provided that it is a valid document of the Waqf, in accordance with the laws and regulations of the country.

The Waqif must use a person of competence and experience in drafting the Waqf document.

The Waqf deed should be written in unambiguous clear terms and the Waqif should include the following:

a. the name and official statements of the Waqif;

b. identify the assets that are used as Waqf and prevent confusion by mentioning the assets official information, as recorded in the ownership documents;

c. choosing the beneficiaries and the method of payment of the yield; by the determination of percentage allocated to them, or authorizing the custodian to do so;

d. details of the mechanism of appointing the custodian, his responsibilities, authorities, method of dismissal and appointment of his successor when dismissed or at the end of his membership / end of the board term, salary and compensation. When necessary, the manner in which decisions are taken, and the right to use committees and consultants;

e. the mechanism of appointing an external auditor for the Waqf;

f. emphasis on governance policies, and in particular the prevention of conflicts of interest;
g. approve the policies and regulations prepared by the custodian, in particular the supervisory policies and the distribution of powers;

h. to certify the Waqf document and to take all the necessary documentation procedures, according to the laws of the country;

i. to provide a witness on the Waqf documentation and take all required procedures for documentation, according to the country regulation;

j. provide the Waqif (during his life) or the custodian (after the death of Waqif), the authority to modify some of the conditions in the Waqf document, provided that this is in the interests of the Waqf and with the consent of the regulatory authorities. The meaning of the interest in the above context is that it is in line with the actions/behavior of a trustworthy, prudent, conscious and insightful person;

k. grant the right to invest part of the Waqf yield for the purpose of its development, maximization of profit and sustainability. It shall determine the mechanism for calculating that part accurately, provided that this does not compromise the rights of beneficiaries of the Waqf; and

l. grant the right to borrow for the custodian and the right to pledge the assets of the Waqf, provided that this is in the interest of the Waqf.

**Fulfillment of the conditions of the Waqf**

AG14 The condition set by the Waqif in the Waqf deed shall be the basis for the conduct of the custodian, as long as possible, without violating the legal provisions relating to the Waqf and the regulations and laws of the country.

AG15 The rule is to follow the conditions of the Waqif, unless there is a necessity that requires the custodian to break it.

AG16 If the terms of the Waqf document are explicit, they must be adhered to. If it is ambiguous, it is necessary to search for the intention of the Waqif, and it is possible to use the customary practice in this sense. If the articles of the Waqf document are in conflict with each other and all of them can be achieved, they must be combined. If this is not possible, it is necessary to take what is in the best interest of the Waqf.

**Part B: The board of custodians**

**Formation**

AG17 The members of the board shall choose among themselves a chairman of the board and a Vice-chairman, unless the Waqif requires otherwise.
AG18 The Waqif may require having the authority to reform the board, provided that it is based on the best interest of the Waqf.

**Experience and skills of the members of the board**

AG19 The following should be considered in determining the experience and skills of the members of the board, unless the Waqf document specified otherwise:

a. legal and Shari’ah capacity of members, appropriate qualifications, diversified knowledge, practical, professional and specialized skills;

b. to be known for piety, justice, honesty and integrity;

c. each member of the board should be interested in the charitable or commercial fields supervised by the board, and be willing to dedicate his time and effort in these areas in order to achieve the strategic direction of the Waqf;

d. the members of the board, as a whole, shall be aware of the provisions of the Waqf and the relevant laws and regulations;

e. the members of the board, shall have experience in charitable and Waqf related work that is sufficient to administer the Waqf;

f. The members of the board must be fully aware of the Waqf and risk activities that the assets might be exposed to. Preferably each member should have prior experience in managing a business or charitable business in one of the areas that Waqf manages or spends money on;

g. the member must not have filed a bankruptcy application or convicted of suspended debt;

h. every member of the board must have integrity when performing his duties. It shall take into account the following:

   i. has not previously been banned from working by a decision of any of the official authorities in his country;

   ii. has not previously been banned or suspended in any charity or other establishment;

   iii. he has not been convicted of any crime or has been subjected to disciplinary action for obvious errors in his integrity;

   iv. has not violated any professional or ethical standards; and

   v. has not provided incorrect or misleading information to any other party.
Every member of the board must have competence and be very careful in the performance of his functions. It shall take into account the following:

i. to be known for excellence in performance, with good practical experience;

ii. to be able to perform the tasks entrusted to him, without any impediments that weaken his ability;

iii. have the required academic qualifications or practical experience; and

iv. to be able to assume the functions of membership and to grant them the necessary amount of time and effort, and not to have a health barrier hinders him from exercising his functions and competencies.

Mechanism of selection of members

AG20 The Waqif appoints the board of Custodians, determines the criteria for their selection, the qualities to be met, and the termination cases.

AG21 In the event of a vacancy in the board, the Waqif shall choose the replacement member, and may delegate such power to the board, provided that the Waqf document guarantees the mechanism of selection of members upon his death or incapacity.

AG22 The Waqf document includes the necessary procedures in the event of death of all board members, or meeting quorum issues.

AG23 The nomination and remuneration committee shall propose a mechanism for the selection of members and related procedures.

AG24 In cases where the validity of the appointment of the member has been determined, the members shall be appointed by a decision of the board based on the prior recommendation of the Nomination and Remuneration Committee.

Functions of the chairman of the board

AG25 He is responsible for the leadership of the board. Functions and responsibilities include:

a. agree on meeting dates with the members of the Board at the beginning of each year, as well as the dates of other meetings, and ensure that meetings are held on time;

b. to convene meetings of the board and to supervise the preparation of the agenda and the topics to be discussed at each meeting. Members of the board have the right to request the inclusion of specific topics on the agenda of the meeting;

c. chairing board meetings, effectively managing the meeting, and enabling members to participate effectively;
d. to ensure that the tasks that the board wants to entrust to one or more of its members have been entrusted to the most experienced member and able to accomplish the task in the best way possible;

e. to ensure that the board is discussing the main and important issues and not to delay the adoption of the appropriate decision;

f. engaging in encouraging discussions, asking questions within meetings, and pushing members towards reaching important and sound decisions;

g. continuing to develop the board’s performance;

h. providing guidance for the preparation of training programs to enhance the skills of the members of the board;

i. ensuring that new members are aware of the work of the board and its affiliated sectors, in accordance with the program adopted by the board in this regard; and

j. ensuring that members of the board and its various committees are familiar with the rules governing the governance of Waqf institutions and their implementation.

**Functions of the Vice-chairman of the board**

**AG26** Assisting the Chairman of the board in his duties, as directed by the chairman of the board. His duties and responsibilities shall include the following:

a. to carry out the functions of the chairman in the event of his absence or temporary illness, which renders him incapable of assuming his functions or in the event of the termination of the chairman's membership until an alternate is appointed; and

b. to assume some of the special tasks entrusted to him by the chairman of the board.

**Responsibilities of board members**

**AG27** The main tasks and responsibilities of each individual member are as follows:

a. a permanent commitment to fulfilling all responsibilities as a member of the board;

b. to review the strategy of the Waqf and its regulations, policies, programs and executive plans, and to abide by its content;

c. to attend meetings of the board, the committees and other meetings as a member of the board, and participate effectively in the discussion in the issues raised in these meetings, and to work with a team spirit when making and deliberating on resolutions of the board;

d. prepare for the board meetings by reading all the information and documents provided prior to the meeting;
e. request any information that is deemed useful to obtain or request any advice that is considered important before any decision is taken on the issues before the board meeting;

f. pay attention to any indicators of potential problems or risks and scrutinize them, and request to provide the information to the committees and the authorities concerned with those risks so that they deal with them accordingly;

g. not to use his membership in the board for any purposes unrelated to the Waqf service;

h. to maintain the confidentiality of all information related to the work of the board;

i. to conduct the annual personal assessment transparently;

j. effective cooperation with the chairman of the board and the rest of the members in all matters that would enhance the board and its annual performance;

k. prepare to accept any mandate requested by the board, and to implement it and to do it well, and to complete it on time;

l. to keep sufficient time for the effective fulfillment of his obligations to the board;

m. review the minutes of the meetings before signing them and ensure that they include the main discussions that took place in the meeting and the accuracy of the decisions taken by the board;

n. members of the board shall be committed to safeguard the Waqf interest in making decisions, recommendations and adherence to the policy of conflict of interest; and

o. inform the board of any developments that may affect the effectiveness of the Board member.

Termination of membership

AG28 The member of the board of custodians shall be terminated in the following cases:

a. the death of the member;

b. end of the term;

c. the resignation of the member, provided that the resignation is approved by the Waqif or the board;

d. the loss of the member’s eligibility as stipulated in the Waqf document;

e. dismissed by the Waqif or Judge; and
f. serious breach by the member in discharging the duties and obligations assigned to him or by violation of the Waqf funds and rights, provided that a decision of the board is approved by a two-thirds majority of the members.

AG29 The board may issue a decision to dismiss the member according to mechanisms and procedures proposed by the Nomination and Remuneration Committee and approved by the board, including the mechanisms and steps taken by the board in the desire to remove any member or accept his resignation.

AG30 The member shall be notified of the decision of dismissal from the board, and the decision to dismiss him shall apply from the time of the notification.

AG31 The board shall take appropriate measures to eliminate the power of the dismissed Member.

Replacement and succession policy for Board members

AG32 The board shall adopt a policy of replacement and rotation of the board of custodians and senior executives of the Waqf.

Waqf as an educated organization (Training)

AG33 Training programs, workshops and conferences relevant to the Waqf area should be adopted to train the members of the board and the executive departments, develop the necessary skills for their work and continuously inform them of any new work related to them.

AG34 Adopt appropriate training programs, workshops and conferences related to the Waqf area; to develop their skills, refine their expertise and keep abreast of current developments in order to help them perform their tasks.

Meetings

AG35 The board of custodians shall meet on a regular basis in accordance with a timetable determined by the Waqf policies. The chairman shall invite the meetings at dates and places announced in advance, and in accordance with arrangements that allow members to attend.

AG36 Meetings of the board of custodians shall not be less than four meetings per year.

AG37 All information on any subject to be submitted to the board or a decision to be made by members must be provided well in advance.

AG38 In cases where a brief presentation of a topic is required, the meeting should be attended by the senior management who has the ability to explain the subject fully and answer questions from members.
AG39 The meeting shall be attended by more than half of the members of the board either by personal presence or by means of visual communication, where appropriate, provided that the member is able to hear the proceedings of the meeting clearly and without interruption, and that the member is present in this case until the end of the meeting. Those who attended by means of visual communication shall be entitled to vote on the decisions of the board.

AG40 It is preferable not to make decisions by circulation except in cases where the meeting cannot be held by the usual means, provided that decisions are taken by circulation manner only in emergency cases, taking into account that the decision is unanimous.

AG41 The decisions shall be made in the board meetings, and the decisions taken by circulation should be unanimous.

AG42 Subject to the regulations and the Waqf deed, decisions to make any changes to Waqf assets shall be made after a recommendation of the investment committee, if any, to vote at the meeting of the board.

AG43 The member may participate in the meetings by video conference, provided that he participates from the beginning of the meeting to the end of the meeting to ensure that the member will interact in the meeting and follow its course and vote on its decisions simultaneously.

AG44 The board shall have a number of committees composed of members of the board of Custodians or others, no less than three members and no more than five, according to the requirements, size and activities of each Waqf. The meetings of each committee shall not be less than four meetings per year. Meetings shall be before the meetings of the board of custodians. The board shall delegate to each committee powers to exercise its functions in such a manner as to ensure effectiveness and achieve the objectives and interests of the Waqf.

AG45 The committees shall be formed in accordance with general procedures established by the Board. These shall include defining the functions of the committees, their terms of reference, the powers granted to them during this period.

AG46 The majority of the members of the committees shall be non-executive members and the chairperson of each committee shall be one independent member.

AG47 Each committee shall inform the board of its findings, conclusions or decisions, with absolute transparency. The board shall follow up the work of the committees periodically to verify that it carries out the tasks entrusted to it. The chairman of each committee shall ensure that the minutes of the committee's meetings are submitted periodically to the board at its meetings.
The board committees may seek the help of external consultants to assist them in the performance of their functions.

Nomination and remuneration committee

The board shall, when necessary, establish a nomination and remuneration committee to undertake the following tasks:

a. Nomination of one or more persons to serve as members of the board, its committees and executive management, where appropriate;

b. To review the structure, size and composition of the board on a regular basis, with recommendations to the board of any amendments it deems appropriate;

c. Identify vacancies in the board and its committees and senior management, and submit appropriate nominations for approval, should the need arise;

d. Preparing job descriptions for the vacant position required to be appointed by the Waqif institution and the required qualifications and experience;

e. To make recommendations to the board on the membership and chairmanship of the committees established by the board, as required;

f. Ensure adherence to procedures and plans for replacement and succession;

g. Proposing the remuneration received by the members of the board and its committees, and the remuneration, allowances and benefits of the senior management, within the percentage allocated from the return according to the condition of the Waqif or according to current practice;

h. Periodic evaluation of the performance of the board, its committees and members, and senior management, with a view to improving the performance of the Board and determining the training needs of its members, or recommending the restructuring of the board or committees; and

i. All the tasks assigned to it by the board.

Investment committee

When necessary, the board shall establish an investment committee and define its administrative structure.

The investment committee shall have the following functions:

a. The preparation of an investment strategy and policy, to be adopted by the board in a manner that does not contradict the condition of the Waqif, and the investment
objectives, criteria and financial management must be aligned with the objectives for which the Waqf was established;

b. to manage the assets of the Waqf and to audit the investment and financing policies and standards for the purpose of maximizing the financial return of the Waqf and raising the productive efficiency of its funds in order to provide the greatest amount of revenue;

c. analyzing investment opportunities and aligning them with the Waqf strategy within the framework established by the Shari'ah supervisory board, and following up on existing and future investments and evaluating them, and recommending them to the board;

d. to continue to manage and improve Waqf investments and to seek an optimal investment portfolio consisting of diversified investments commensurate with their returns and their degree of risk, according to the investment strategy and its approved policy;

e. supervise the implementation of appropriate arrangements for the safeguarding all investment assets;

f. advise the board in all matters related to investment.

g. study the investment risk policy in coordination with the relevant committees, and make appropriate recommendations to the board;

h. ensure prudent distribution of short-, medium- and long-term investment risks;

i. recommend investment policies and adjust them according to investment results, changing market conditions and needs, and submit them to the board for approval;

j. to make recommendations for investment initiatives outside the approved investment policies, and to establish strategic partnership relations with investment institutions;

k. to make recommendations to the board in areas where the board has the responsibility to determine policies, as well as to provide advice on investment-related issues;

l. supervise the consultancy work related to the committee's competences; and

m. all the tasks assigned to it by the board.

Executive committee

AG52 when necessary, and for a period not exceeding the duration of its term - the board may establish an executive committee, consisting of at least three members, at least one third of
the members of the board, and the board may appoint a chairperson or delegate the committee to choose.

AG53 The executive committee shall have the following functions:

a. develop the Waqf structure and submit it to the board for approval;

b. supervising and monitoring the operational and financial performance of the Waqf and ensuring the implementation of its parameters;

c. the exercise of the financial and administrative powers entrusted to the committee by the board, the approval of the conclusion of contracts with third parties, procurement and the adoption of all administrative decisions within the limits of the approved powers;

d. recommend investment projects submitted by the investment committee to the board;

e. develop the authority matrix and submit them to the board for approval; and

f. all the tasks assigned to it by the board.

AG54 The executive committee shall meet on a regular basis, and the number of its meetings shall not be less than eight meetings per year.

Governance committee

AG55 The board shall establish a governance committee, consisting of three or more members, including at least one independent member, who shall be the chairman of the committee as well as two non-executive members.

AG56 The governance committee shall have the following functions:

a. prepare and update the Waqf governance guide, monitoring its application and developing it to comply with best practices; working with the nomination and remuneration committee, the Shari’ah supervisory board and the senior management;

b. review and develop the code of professional conduct, which represents the values of Waqf and other internal policies and procedures to meet the needs of the Waqf and conforms to best practices;

c. provide the board with reports and recommendations resulting from its performance, including assessment of compliance with the Waqf governance guide;

d. brief the board on the latest developments, decisions and laws issued by the various regulatory bodies; and
e. all the tasks assigned to it by the board.

*Periodic evaluation of the performance of the board, its committees and members*

**AG57** The board is responsible for the periodic evaluation of the performance of the committees and its members, in order to improve the Board’s performance, determine the training needs of some members, or to decide on restructuring, and may use specialized bodies to conduct such an assessment. The board shall periodically evaluate the performance of the nomination committee and the remuneration.

**AG58** The board shall direct clear and transparent written systems and mechanisms to the nomination and remuneration committee; to assess the performance of the committees as a whole and the performance of each of its members and the performance of the executive departments.

**AG59** The assessment of the performance of the board of custodians, its committees, its members and the senior management shall be carried out according to quantitative and qualitative performance indicators (KPIs) prepared by the nomination and remuneration committee and approved by the board.
Part C: Pertinent policies and procedures for governance and internal control

Policy for stakeholders’ relationship

AG60 The Waqf shall develop, publicize and follow a uniform policy governing the relationship with stakeholders aiming to regulate the relationship between the Waqf and the stakeholders (including public at large). Such policy shall be developed in line with the good practices of governance and shall guarantee their respective rights and take into account the interest of the Waqf including it perpetuity and sustainability.

AG61 The policy shall include the key considerations with regard to the relationship with, and amongst (with a due balance), various stakeholders of the Waqf (see paragraph 18).

AG62 The policy shall be aimed to uphold the principles of governance as defined in this standard (see paragraphs 7 -32).

AG63 Those charged with governance should review the investment policy periodically and amend and update it as necessary.

Conflict of interest policy

AG64 The Waqif shall adopt a policy of conflicts of interest, enabling him and all stakeholders and associates to the following:

a. knowledge of cases of conflict of interest;

b. procedures to be followed in the event of a conflict of interest;

c. the requirements for the disclosure of any cases of conflict of interest to new members of the Waqf;

d. the necessary controls for the clearance of any conflict of interest cases, and the determination of those who have the authority to do so; and

e. to determine who is responsible for implementing the policy.

AG65 the policy of conflict of interest contributes to ensuring that all members of the Waqf are faithful and transparent to achieve the interest of the Waqf in all circumstances and that the decisions they make are devoid of any inclination in favor of the Waqf, and that they refrain from presenting the personal interest or interest of others to the interest of the Waqf, even if they oppose this with their personal interests or those of their own interests.

Whistle-blowing policy

AG66 The policy requires all employees and affiliates to stop at all levels to report safely any suspected violations of any regulations, policies or regulations in a manner that protects them from any consequences of (a) (unless this communication is proved to be malicious). This policy includes:
a. actions by which a worker may report a flagrant breach of the contract or, according to his / her indications, expect that there is a high probability that it will occur;

b. the entity receiving such communications; and

c. the confidentiality of the identity of the reporter, and protection against any harassment that may be suffered as a result of the communication/information.

**Document archiving policy**

**AG67** The documents have a great legal importance to protect the Waqf and its rights, and it is necessary to preserve it both in paper and electronic formats, while ensuring confidentiality, including the documents that are not needed any more, requiring them to be confidential until they are destroyed. The policy related thereto requires the following to be to observed:

a. proper documentation to be maintained;

b. the mechanism of classification of documents and the duration of archiving;

c. only authorized parties to view the document;

d. procedures for the storage and circulation of documents; and

e. procedures for the shredding of documents.

**The policy of receiving comments and observations and complaints and addressing them**

**AG68** The Waqif should be careful about the quality of work of the Waqf’s associates, and be aware of the importance of knowing the views of those who deal with the Waqf and their complaints. To that end, the Waqif should pay attention to complaints about the suspension of work on the part of the custodian and to identify the shortcomings.

**AG69** The Waqif should adopt and handle a complaints policy to raise the quality of the work of the Waqf and comply with the ISO standard No. 10002: 2014.

**Policy of communication with the media**

**AG70** Communication and social media is of great importance nowadays to build a positive image of the endowment, so the Waqif should adopt a policy of communication with the media, which states:

a. the strategy of the endowment for media communication and its objectives, in a quantifiable manner, and the mechanisms for implementing this strategy;

b. the strategy of the endowment in public relations, which aims at introducing it and its activities and its role in serving the community, establishing mutual trust with the relevant authorities, monitoring the news related to the Waqf, and formulating policies and plans to deal with negative circumstances;
c. determine the criteria for selecting the appropriate means to communicate with the community and beneficiaries of the Waqf, and the appropriate procedures for that;

d. the policy shall include the basics of media handling, in particular: responsibility, clarity, attention, respect, cooperation, and transparency;

e. the importance of publishing the achievements of the Waqf and its projects and the facts related to its objectives, taking into account the accuracy of the information published;

f. procedures for the appointment of the spokesperson of the Waqf, the departments responsible for monitoring the pages on the network and other means, and the functions and responsibilities of these departments; and

g. to train staff handling the media.

*Information security policy*

**AG71** The Waqif should adopt an information security policy and maintain its confidentiality.

**AG72** ISO standard number 27001: 2013 shall be considered in the preparation of this policy.

*Human resources policy*

**AG73** The Waqif must adopt a human resources policy that takes into account the nature of the labor market and competition, and enable the Waqf to attract the best expertise to achieve its objectives.

**AG74** This policy shall take into consideration:

a. to attract, retain and train outstanding staff to develop their skills and maintain loyalty to the Waqf;

b. improve the working environment of its affiliates;

c. establish a good working environment governed by clarity and equality;

d. define privileges and rewards in accordance with the principle of achieving functional objectives;

e. complaints and grievances of employees and ensuring their fair treatment and ensuring that the complaint reaches the concerned party, without prejudice or opposition to the interest; and

f. career replacement policy for staff holding important posts.

*Code of professional and career conduct*

**AG75** A charter of professional conduct must be adopted for all members of the Waqf.
This charter contains in particular:

a. commitment to achieving the Waqf vision, mission, goals and values;

b. emphasis on working honestly, faithfully and professionally;

c. maintain confidentiality of information related to the Waqf;

d. commitment to work fairly and transparently and avoid conflicts of interest;

e. compliance with laws, regulations, instructions, internal policies and regulations, and rules of governance; and

f. commitment to support the beneficiary of the Waqf and its service.

Part D: Specific provisions for different types of custodians

The board of custodians

AG77 It is understood that, keeping into consideration the nature and respective size in terms of resources and operations, in most Waqfs, establishing a board of custodians is the most preferred option.

AG78 The Waqif shall form a board of custodians and determine its principal rights and responsibilities, as well as, the terms of reference in the Waqf deed.

AG79 The number of members of the board of custodians shall be proportional to the size of the Waqf and the nature of its activities, but generally not less than three members and not more than nine members. It shall be ensured that there shall be a reasonable number of members, who are independent of the Waqf, the Waqif and other custodians, if they have shared commercial, social or political interests. It shall be preferable, if representation is also provided to the beneficiaries through a fair mechanism.

AG80 Candidates for membership of the board of custodians shall be selected through a uniform mechanism on the basis of the Waqf document, according to their expertise, wisdom, integrity, technical and managerial capability, achievements and readiness to devote sufficient time to the functions of the board.

Individual custodian

AG81 In cases where only an individual custodian is appointed, the Waqif shall determine the conditions and capabilities required for him including the experience and skill-set requirements.

AG82 The Waqif shall specify the successor or the succession mechanism for the custodian.
Legal custodianship

A Waqif may appoint a juristic person (institution) as custodian of the Waqf. In such case those charged with governance of such institution shall take the responsibility of the custodianship of the Waqf.

Such institution may assign the management responsibilities of the Waqf to its own management or to personnel amongst its management or, alternatively, may appoint dedicated management for the Waqf at its discretion.

State custodianship and public bodies

The state may be appointed by the Waqif as a custodian, or acquire the custodianship, by virtue of the stipulations of the Waqf deed or by legal action, etc.

In situations whereby the Waqf is in the custodianship of the state, it is preferable that instead of the direct supervision model of the Waqfs, it shall form a supplementary board of custodians and supervise their functioning. In such situation, the supplementary board of custodians (by whatever name called) shall have the same rights and responsibilities as a board of custodians under this standard, subject however, to any conditions and limitations as may be specified by the state for this purpose. A single supplementary board of custodians might be appointed by the state, along with support staff, to manage the affairs of multiple Waqfs under the state custodianship.
## Part E: Principles of governance

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<th>Explanation</th>
<th>Related Pillar</th>
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<tr>
<td>1</td>
<td>Effective Shari’ah compliance structures</td>
<td>A Waqf should establish an effective structure for ensuring Shari’ah compliance. Such structure shall cover effectiveness of the role played by different organs of governance insofar as they relate to Shari’ah compliance.</td>
<td>Shari’ah compliance, Responsibility</td>
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<td>Appropriate governance structures shall be in place to allow for a transparent Shari’ah compliance process.</td>
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<td>Interaction between the SSB or its members and management shall be transparent.</td>
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<td>The responsibility for the conduct of the overall affairs of the Waqf in accordance with Shari’ah rests with the custodian and the senior management.</td>
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<td>The SSB shall report on Shari'ah compliance based on its review.</td>
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<td>2</td>
<td>Fair treatment of, and amongst, stakeholders</td>
<td>A Waqf shall ensure fair treatment of, and amongst, different stakeholders of the Waqf. Necessary governance mechanisms shall be in place to safeguard the interests of the Waqif (including association of Waqifs) who have created the Waqf through his / their donation. He / they shall have time access to accurate financial and operational reporting about the overall affairs of the Waqf.</td>
<td>Accountability, fairness and responsibility</td>
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<td></td>
<td>Those charged with governance and senior management shall be accountable to the Waqif and the beneficiaries, along with other stakeholders, and responsible for managing successful and productive relationships with, and amongst, various stakeholders.</td>
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<td>Those charged with governance shall ensure that the cost of management of Waqf – particularly the remuneration being paid to the management and employees of the Waqf and administrative costs shall be reasonable, considering the long-term sustainability and perpetuity of the Waqf and keeping a balance between such cost, the revenue and return on assets of the Waqf and the benefits being passed on to the beneficiaries.</td>
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<td>3</td>
<td>Equitable and fair treatment of, and amongst, beneficiaries</td>
<td>A Waqf shall ensure equitable and unbiased treatment amongst beneficiaries, particularly with regard to the distribution of benefits and grants from the Waqf.</td>
<td>Fairness</td>
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<td>Necessary governance mechanisms shall be in</td>
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<td>place to safeguard against the risks of inequitable treatment of beneficiaries of different nature and classes given the resources of the Waqf, in line with the objectives of fund. This shall include the avoidance of conflict of interest with regard to different stakeholders of the Waqf.</td>
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<td>4</td>
<td>Fit and proper criteria for board and management</td>
<td>A Waqf shall lay down, and apply, a set of criteria to govern the appointment of those charged with governance (including custodian, if applicable) and different organs of governance as well as for appointment of senior management.</td>
<td>Responsibility</td>
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<td>5</td>
<td>Effective oversight</td>
<td>Those charged with governance shall play an effective role in leadership, direction and monitoring the implementation of its policies as well as in promoting a sound Shari’ah compliant culture within the Waqf.</td>
<td>Shari’ah compliance, Accountability and responsibility</td>
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<td>The primary role of those charged with governance is to carry out their responsibilities in the best long-term interest of the Waqf (ensuring sustainability and perpetuity) and its stakeholders. Those charged with governance shall set the appropriate tone for risk, compliance, and other control activities consistent with Shari’ah.</td>
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<td>Those charged with governance shall set a clear strategic plan that sets forth the Waqf’s operational strategy and management plans to implement it.</td>
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<td>Those charged with governance shall establish a well-aligned management structure that fosters proper segregation of duties and enhances accountability and effectiveness of management oversight.</td>
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<td>A sound internal controls framework is comprised of an effective control environment, an assessment of key risks, control activities, timely and effective information and communication processes, and an oversight/monitoring process.</td>
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<td>Regular evaluation of effectiveness of those charged with governance (including the custodian) is necessary in enhancing accountability. Those charged with governance shall set effective financial and non-financial performance measures for periodic assessment of effectiveness of governance.</td>
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<td>6</td>
<td>Audit and governance committee</td>
<td>A Waqf shall have an audit and governance committee whose role and responsibilities should be set in appropriate terms of reference which shall include, among others matters, the process</td>
<td>Shari’ah compliance, Transparency and</td>
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<td>for financial reporting, internal controls, internal audit oversight, external audit oversight and Shari’ah compliance. The audit and governance committee shall be composed of non-executive nominees by the custodian and shall maintain its independence from executive authority as practicable.</td>
<td>responsibility</td>
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<td>7</td>
<td>Risk management</td>
<td>Those charged with governance shall be actively involved in setting the risk appetite and shall make sure that there are appropriate policies and systems for identification, measurement, analysis, reporting and mitigation of risks. Those charged with governance shall understand their role and that of management in the area of risk management. Management is responsible for assessing and managing the Waqf’s exposure to various risks. Those charged with governance are responsible for ensuring that the Waqf has a process in place to assess and manage risks and to ensure that both management and those charged with governance receive timely and accurate information on key risk areas. Those charged with governance shall approve the Waqf’s risk strategy and set tolerance levels for risks the Waqf assumes and shall establish the framework for management of the risks it takes on in its operations. Those charged with governance shall have a thorough understanding of the risks in relation to the Waqf’s operations, as well as, the internal and external risks that could prevent it from achieving its strategic objectives. Those charged with governance shall establish a programme for succession planning and leadership development that shall also cover training and continuing education on subjects related to the Waqf’s business.</td>
<td>Accountability and responsibility</td>
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<td>8</td>
<td>Avoidance of conflicts of interest</td>
<td>A Waqf shall set appropriate governance structures to ensure those charged with governance, members of SSBs, management and employees (including volunteers), as well as, external parties, such as external auditors, suppliers and customers, and other parties with substantial dealings with it avoid conflicts of interest. The Waqf shall identify all situations of potential conflicts of interest and institute codes and policies to ensure situations leading to such</td>
<td>Fairness</td>
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<td>conflicts are avoided at all times.</td>
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<td>Those charged with governance shall act in a manner that is free and objective in perspective.</td>
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<td>9</td>
<td>Appropriate compensation policy oversight</td>
<td>A Waqf shall set appropriate governance structures in relation to remuneration policies for those charged with governance, SSB and management. Compensation policies shall be developed on an independent and transparent basis.</td>
<td>Accountability and transparency</td>
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<td>10</td>
<td>Public disclosures</td>
<td>A Waqf shall adopt high standards of reporting and satisfy the information needs of all relevant stakeholders. The Waqf shall maintain high standards of transparency and market discipline to build trust with the stakeholders. Accurate, adequate, timely and fair reporting of financial and non-financial performance measures shall be ensured.</td>
<td>Transparency</td>
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<td>11</td>
<td>Code of conduct and ethics</td>
<td>A Waqf shall adopt policies, procedures consistent with Shari’ah to promote a code of ethical and responsible behavior by those charged with governance, members of SSB, management and employees (including volunteers).</td>
<td>Shari’ah compliance, Fairness and responsibility</td>
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<td>12</td>
<td>Appropriate enforcement of governance principles and standards</td>
<td>A Waqf shall have a mechanism to ensure that the principles and standards on governance are adhered to and monitored.</td>
<td>Accountability and responsibility</td>
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**Appendix D: Brief history of the preparation of the standard**

**H1** In collaboration with Future Investments and the International Institute of Islamic WAQF (IIIW), AAOIFI initiated the Waqf comprehensive project for revision and development of the Shari’ah, governance and accounting standards on Waqf in 2017, the projects were initiated and multiple working groups meeting were held to discuss the overall approach and content of the standard.

**H3** The AAOIFI Governance and Ethics Board (AGEB) meeting held its seventh meeting on 17 - 18 Jumada II 1439H, corresponding to 6-7 of March 2017 at AAOIFI Head Office, Seef District, Kingdom of Bahrain. The English translated version of the standard was presented and discussed in the meeting. The board created a smaller working group consisting of four members and entrusted them with the responsibility of approving the standard after incorporating all the comments requested by AGEB.

**H3** The working group members provided their approval on the content on 9 Safar 1440H corresponding to 18 October 2018.

**H4** [to be updated]