

# Impact of AAOIFI's Governance Standards on Quality Corporate Governance of Islamic Financial Institutions

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<https://doi.org/10.33003/fujaf-2023.v1i1.22.209-221>

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## Abstract

This study examines the impact of AAOIFI's governance standards on quality the corporate governance practices by Islamic Financial Institutions. The paper is purely a literature-review-based research work where adequate literature relevant to the study are reviewed and the AAOIFI Governance Standards are studied with a view to finding out how compliance with the standards by the IFIs could translate into achievement of their set objectives, especially the objective of growing up the wealth of the shareholders. A rundown was given to the thirteen (13) governance standards (GS 1-13) issued by the AAOIFI, to show importance compliance with them would make the IFIs more "lovely" and more wealth-creating. It was found that AAOIFI's governance standards have positive impact on the corporate governance practices of IFIs, as the standards lead to a certain degree of consistency in products and services offered by IFIs and the promotion of standardized practices at country level, as well as at the global level. The study also revealed that scholars in the field of Corporate and Public Governance have less interest in conducting studies on the AAOIFI's GS the way they pay research attention to conventional Corporate Governance and Public Governance matters. The study recommended that AAOIFI should ensure that scholars and professionals in the field of Corporate and Public Governance are encouraged to pursue high level research on the practicality of all the 13 Governance Standards through provision of Research Grant, seminars and workshops.

**Keywords:** Governance standards, IFIs, Shareholders' wealth, Economic Growth, Stakeholder.

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## 1.0 Introduction

AAOIFI, which is an acronym of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an independent standards-setting body dedicated to the development of international standards

on Financial Accounting, Auditing, Corporate Governance, Ethics and Shari'a for compliance by Islamic financial institutions (IFIs). The birth of AAOIFI was given in Bahrain, in 1993 by some key Islamic Financial sector regulators, supervisors and operators. AAOIFI has issued many standards so far, for

compliance by Islamic IFIs across the world, so as to ensure uniformity in their ethical and corporate governance practices as well as in their financial reporting practices (Lewis & Algaoud, 2000; Fariba & Mehran, 2016; AAOIFI, 2021; AAOIFI, 2022).

As AAOIFI has world view, and it is developing standards to meet the quality enhancement needs of various stakeholders (especially shareholders of IFIs), it has to reflect high degree of globalism in all the standards that it issues for compliance by the target organizations. AAOIFI is, therefore, an international accounting standards-setter in the same class as the Financial Accounting Standards Board (FASB) which sets Financial Accounting Standards (FAS), the International Accounting Standards Board (IASB) which sets International Financial Reporting Standards (IFRS), and the International Public Sector Accounting Standards Board (IPSASB) which sets International Public Sector Accounting Standards (IPSAS). But AAOIFI's standard-setting goes beyond Accounting Standards.

It is very imperative that AAOIFI's approach to standard-setting be special in view of the global respect and spread Islamic financial system enjoys as an alternative to the conventional financial system. With the widespread acceptance of Islamic banks, Islamic Insurance firms (Takaful), Islamic Real Estate Investment Trusts (IREIT), Islamic Pension Funds (IPF), Islamic capital market instruments (especially Sukuk), etc., there was the urgent need to standardize the reporting

system of all the businesses that operate as providers of those Islamic financial services globally, in view of the fact that their structures, operational philosophies and investment modes are greatly different from those of the conventional financial services providing firms. Fundamentally, Islamic financial system is against interest (*riba*) of any form, gambling (*maiser*) and uncertainty (*gharar*) (Gafoor, 1996; Hassan & Aliyu, 2018).

It, therefore, became compelling on experts in the Islamic finance to come up with framework for effective corporate governance mechanism (through standardization of the corporate governance system to be used) as well as standardization of financial reporting system to be used by IFIs in the best interest of investors, other account holders and all other stakeholders to the operations of the IFIs. That was how the idea of setting standard on corporate governance by AAOIFI came about (Ahmad, 2014).

AAOIFI standard-setting process is similar to that of the other global standard-setting bodies, in view of the fact that, for each standard to be properly set, AAOIFI develops Exposure Draft (ED) and shares it to all relevant stakeholders and publishes it on its website, allowing adequate time for responses in the form of criticisms, practicality assessment and other observations and inputs. AAOIFI also organizes seminars/workshops for harmonization of comments on the ED before the relevant Board comes to a conclusion on whether or not the proposed standard should be issued for general application. AAOIFI also

considers replacement of old standards whose times have passed with those that tally with the economic realities of the current situation.

This paper briefly highlights the 13 Governance Standards for Islamic Financial Institutions (GSIFI) issued so far by AAOIFI. The paper aims to wet or entice the appetite of scholars in the field of Corporate and Public Governance to develop high interest in conducting studies on the standards issued by AAOIFI the way they pay research attention to conventional Corporate Governance and Public Governance matters. This is with a view to ensuring that the quality of the standards is improved upon continuously so as to ensure continuous improvement in the quality of governance in the Islamic financial services industry.

The rest of the paper is in four parts. Section two reviews literature on AAOIFI and its historical background. It also gives brief highlights of the 13 Governance Standards (GS) issued so far by AAOIFI. Section three describes the methodology adopted for the study. Section four projects the impact of the issued standards on quality corporate governance in the Islamic finance industry, as compliance is ensured by relevant IFIs. Section five concludes the paper and proffers recommendations.

## 2.0 Literature Review

### *Historical Trip into AAOIFI*

The institution that formally regulates the accounting, ethics and governance practices in the Islamic financial industry is the Accounting and Auditing Organization for Islamic Financial

Institutions (AAOIFI), a global standard setting body based in Bahrain. AAOIFI's fields of interest include accounting, auditing, governance, ethics and Shari'a standards for IFIs and Islamic finance industry (AAOIFI, 2022).

AAOIFI was established in accordance with the Agreement that was signed by founding IFIs on February, 26, 1990 in Algiers. Then, it was registered on 27 March, 1991 in the State of Bahrain. There are six founding members of AAOIFI, namely: Islamic Development Bank (IDB), Dallah al-Baraka Group (Bahrain), Dar al-Maal al-Islami (Switzerland, represented by Shamil Bank), Al-Rajhi Banking and Investment Corporation (Saudi Arabia), Kuwait Finance House (KFH) and al-Bukhary Foundation (Malaysia), which joined the founding members group in 2005 (14 years after registration) (AAOIFI, 2021).

AAOIFI has 141 Associate Members from Bahrain (22), Sudan (18), Qatar (7), UAE (10), Egypt (3), Jordan(4), Lebanon (2), Palestine (1), Kuwait (21), Saudi Arabia (7), Yamen(1), Indonesia (2), Turkey (2), Malaysia (5), Brunei(1), Cayman Island(1), Tunisia (2), Algeria (2), Russia (1), Sri Lanka(4), Pakistan(2), Bangladesh(1), South Africa (4), Iran(2), Syria(1), Kenya(2), Ontario-Canada(1), UK(5), Australia(2), Azerbaijan (1), and Gambia (2) (AAOIFI, 2022).

AAOIFI also has 7 Members representing Regulatory and Supervisory Authorities from Palestine, Bahrain, Syria, Indonesia, Qatar, Pakistan and Republic of Maldives. There are 38 Observing Members from Bahrain (7), Malaysia (6), UAE (8), Kuwait (2), Saudi Arabia (3), South Africa (2), and

one each from Kenya, Palestine, Pakistan, Egypt, Cyprus, Qatar, Kyrgyz, India, Algeria and USA. AAOIFI is supported by institutional members (200 members from 45 countries, so far) including central banks, IFIs, and other participants from the international Islamic banking and finance industry, worldwide (AAOIFI, 2021; Halal-Ninja, 2022).

Despite the fact that AAOIFI standards are not mandatory; it has been successful in promoting its standards to Islamic countries (Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria). Moreover, the relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements. So far (by 2023), AAOIFI has issued 41 accounting standards, 6 auditing standards, 3 ethics standards, 13 governance standards, and 48 Shari'a standards.

The declared objectives of AAOIFI are: (i) to develop accounting and auditing thoughts relevant to IFIs; (ii) to disseminate accounting and auditing thoughts (theory) relevant to IFIs and its applications (practices) through training, seminars, publication of periodical newsletters, carrying out and commissioning of research and other means; (iii) to prepare, promulgate and interpret accounting and auditing standards for IFIs; and (iv) to review and amend accounting and auditing standards for IFIs. AAOIFI works towards achieving these objectives in accordance with the precepts of Islamic

Shari'a (Alao, Ibrahim & Esq, 2019; AAOIFI, 2022).

Countries where AAOIFI standards are either mandatory or recommended for compliance by regulatory authorities include Bahrain, Malaysia, the UAE, Saudi Arabia, Lebanon, Syria, Sudan, and Jordan (Halal-Ninja, 2022). Prior to the introduction of AAOIFI standards, IFIs in these countries were operating in a "semi-regulated market" (Usmani, 1998), where accounting policies were determined by the conventional accounting standards setting bodies (local or international), with the assistance of the central bank's Shari'a Supervisory Board (SSB). Hence, the unique financial reporting requirements of IFIs were not being met (Di Mauro et al., 2013). The main concern of this paper is on the Governance Standards (GSIFI) issued so far by AAOIFI, with a view to appreciating how important they are in ensuring effective corporate governance in the IFIs globally, especially as the IFIs already have conventional corporate governance codes to comply with.

### *Highlights of AAOIFI's Governance Standards*

Thirteen (13) Governance Standards for Islamic Financial Institutions (GSIFIs) have been issued so far by AAOIFI. The first seven (7) of the Governance Standards (GSs) were issued within the period 1993 to 2011, while the last six (6) were issued from 2012 to date (2023). The GS are as follows:

#### *GS 1: Shari'a Supervisory Board-Appointment, Composition and Report*

The purpose of this Governance Standard for Islamic Financial Institutions (GSIFI) is

to establish standards and provide guidance on the definition, appointment, composition, and reporting of the SSB for ensuring compliance with Shari'a rules and principles in the IFI's dealings and transactions. However, an SSB is an independent body of specialized jurists in Fiqh al-Mua'malat (Islamic commercial jurisprudence). The SSB may include other members who are specialized in Fiqh Al-Mua'malat, but the person on the board should be an expert in the field of IFIs and have knowledge of Fiqh Al-Mua'malat. The SSB is entrusted with the duty of Mua'malat. It is charged with directing, reviewing, and supervising the activities of the IFI in order to ensure compliance with Shari'a rules and principles. The Shari'a Rules and Principles, Fatwas and rulings of SSBs will be binding on IFIs.

### ***GS 2: Sharia Review***

The goal of this Governance Standard is to establish standards and provide guidance to help SSB of IFIs perform Shari'a reviews to ensure compliance with Shari'a Rules and Principles as reflected in their fatwas, rulings, and guidelines (hereinafter, the Shari'a). Moreover, Shari'a review is an examination of the extent of an IFI's compliance, in all its activities, with the Shari'a. This examination includes contracts, agreements, policies, products, transactions, memorandum and articles of association, financial statements/reports (especially internal audit and central bank inspection). This standard should be read in conjunction with Auditing Standard for Islamic Financial Institutions (ASIFI) 1: Objective and Principles of Auditing with

particular reference to paragraph 7, and ASIFI 2: The Auditor's Report with particular reference to paragraph 17. It follows that the objectives of GS 2 as well as those of ASIFIs 1 and 2 require close coordination between the SSB and the external auditor.

### ***GS 3: Internal Shari'a Review***

The goal of this Governance Standard is to provide guidance on internal Sharia reviews in institutions that operate in accordance with Sharia rules and principles. The standard covers conformity with Sharia rules and principles. The following are covered by the standard: Objectives; Internal Shari'a review; Independence and objectivity; Professional proficiency; Scope of Work; Performance of the internal Shari'a review work; and Management of the internal Shari'a review. The standard also covers responsibility for its implementation and ensuring full compliance with its provisions.

### ***GS 4: Audit and Governance Committee***

The purpose of this Governance Standard is to define an audit institution's role and responsibilities, as well as the role and responsibilities of an audit and governance committee (AGC) for an IFI. The standard also lists the requirements for setting up a committee like this for an IFI. It also lists the requirements for an effective AGC. Moreover, the importance of the AGC (known internationally as the Audit Committee) for an IFI emanates from its role in: (a) Achieving the fundamental objectives of an IFI, by enhancing greater transparency and disclosure in financial reporting; and (b) Enhancing the public's confidence of the

IFI as genuine in its application of Shari'a rules and principles.

#### ***GS 5: Independence of Shari'a Supervisory Board***

The purpose of this standard is to provide guidance for members of SSBs of IFI on their independence, the monitoring of such independence, and ways to resolve issues of independence. Moreover, Independence, for the purpose of this standard, is "An attitude of mind which does not allow the viewpoints and conclusions of its possessor to become reliant on or subordinate to the influences and pressures of conflicting interests. It is achieved through organizational status and in an objective way". The principle of objectivity imposes obligations on SSB members to be fair, intellectually honest and free of conflict of interests (neutral).

#### ***GS 6: Statement on Governance Principles***

A Statement on Governance Principles is required to support the development of sound governance practices within the IFIs and to serve as the foundation for AAOIFI standards setting on individual aspects of governance. Governance practices play a vital role in ensuring that businesses are run in a prudent and sound manner. A loss of faith in financial institutions has the potential to cause severe economic dysfunction, affecting the entire community in which they operate and slowing down the overall economic growth and development.

#### ***GS 7: Corporate Social Responsibility, Conduct and Disclosure***

The goal of this Governance Standard is to establish standards for the definition of

corporate social responsibility (CSR) for IFIs, to provide both mandatory and recommended implementation guidelines in all aspects of the IFI's activities, and to provide guidance on the disclosure of CSR information to the IFI's stakeholders. The standard emphasizes on the economic, legal, ethical and philanthropic responsibilities of IFIs and how to discharge them as well as ensuring effective disclosures.

#### ***GS 8: Central Shari'a Board***

The purpose of this Governance Standard is to provide guidance on the definition, scope of work, responsibilities, appointment, composition, independence, terms of reference of a central Shari'a board (CSB) and other relevant issues. This standard aims to ensure compliance of the regulatory bodies establishing, or having established, central Shari'a boards with Shari'a principles and rules. It aims to provide framework on governance for central Shari'a boards worldwide, and to standardize global regulatory practices in this area. It also presents, but not mandates, a country level approach for regulating the Islamic finance industry within borders, including products, practices, operations, etc. This standard aims to establish an advanced degree of harmonization and convergence in the work of SSBs of IFIs to iron out the situations of contradiction and differences between the Fatwas, rulings, decisions, and applications by such entity-level boards, allowing consistency in products and services offered by IFIs and the promotion of standardized practices. This will, in turn, increase the credibility of the Islamic finance industry and boost the confidence of its clients and investors in

IFIs and their offerings.

### ***GS 9: Shari'a Compliance Function***

The purpose of this Governance Standard is to set harmonized principles for IFIs on the concept and role of Shari'a compliance as a function and department within the IFIs with an objective to standardize global practices in this area. The standard sets out the requirements for functional and departmental operations to ensure compliance with Shari'a. Shari'a compliance is viewed as both a function within IFIs that constitutes part of their governance and control set-up, and as a department which is designed to achieve the broader goal of Shari'a compliance as a management responsibility. The standard prescribes, inter alia, the key considerations for instituting the Shari'a compliance function as well as a set of compliance techniques and tools. It sets out the roles and responsibilities of the Shari'a compliance department. It discusses the reporting line and respective responsibilities, including the responsibilities of various organs of governance towards Shari'a compliance. While the Shari'a compliance function may be rightly termed as the backbone of an IFI, there exists observable inconsistencies in the approach, responsibilities, modus operandi, reporting lines and the control structure in the processes amongst IFIs not only globally but also within the same jurisdiction.

Additionally, the different governance frameworks are also observed to have notable inconsistencies with each other. The decision to develop a GSIFI in this

area was taken so that the practices may be harmonized, standardized and improved upon within the industry. This standard aims to establish an advanced degree of harmonization and convergence in the area of Shari'a compliance within IFIs. It envisions this function as an integral part of an IFI's governance and control structure, and elaborates on specific key objectives of the IFI with regards to its compliance with Shari'a principles and rules.

### ***GS 10: Shari'a Compliance and Fiduciary Ratings***

This standard sets out principles for the rating agencies to be applied for Shari'a compliance and fiduciary rating of IFIs. It provides principal guidance on the responsibility, acceptance, process, reporting and quality assurance for such services. Rating agencies are free to develop their own detailed methodologies for such ratings including the rating scales. The elements of Shari'a compliance and fiduciary ratings include Shari'a compliance (i.e., compliance with Shari'a principles and rules), Shari'a governance, related corporate governance, transparency and disclosure, ethics and values as well as fiduciary performance. The standard encourages the IFIs to have such ratings performed regularly at suitable intervals. However, A Shari'a compliant financial institution does not only have to demonstrate financial strength and stability, but it is equally important that it follows and is perceived to be following the Shari'a in all its activities and operations and acting as a responsible fiduciary. The stakeholders – including the shareholders, investment account holders, customers, suppliers,

employees, regulators and the society at large -have a right to know the level of commitment and seriousness of the IFI in terms of Shari'a compliance and fiduciary performance.

#### ***GS 11: Internal Shari'a Audit***

The purpose of this standard is to build upon the earlier standard and provide improved guidance on Internal Shari'a Audit (ISA) function in IFIs that conduct business in conformity with Shari'a principles and rules. The standard prescribes the compliance, quality control and ethical requirements, objectives and organizational structure along with the professional requirements with regard to the principal procedures, documentation and reporting for internal Shari'a audit.

However, GS3 "Internal Shari'a Review" was developed in the initial phase of the development of the Islamic finance industry. The industry has evolved significantly in the last two decades; regulators have come up with improved governance frameworks and the internal auditing profession also applies improved standards. Consequently, AAOIFI felt the need to revise and update its standard. The project also includes developing a detailed application guideline in the form of an internal Shari'a audit manual, which will be issued in due course.

#### ***GS 12: Sukuk Governance***

The goal of this governance standard for Sukuk is to recommend principles with the goal of standardizing how things are done around the world in this area. It is also meant to cover areas that are

important for the transparent issuance of instruments and management of investments. The standard sets out the standardized requirements for various stages in Sukuk management that comprise issuance, management, maturity or termination, and restructuring or rescheduling phases. This comprehensive coverage will provide a framework that is expected to bring enhanced governance into practice and strengthen trust in Sukuk markets. However, sukuk has emerged as a widely used instrument for investment purposes by sovereigns, corporate entities, and IFIs. Various regulators, sensing the need and necessity to manage this instrument, have issued regulations to govern the overall cycle of Sukuk investments; however, there are observable disparities in the approach and coverage areas. Considering the situation, it was decided to develop a global standard in this area so that the practices in this respect may be harmonized, standardized, and improved upon within the industry.

#### ***GS 13: Waqf Governance***

The revised Shari'a standard on Waqf was issued in March 2019 while the financial accounting standard on financial reporting by Waqf institutions (FAS 37) was issued by the AAOIFI Accounting Board in December 2020. The Waqf has been one of the important organs in Muslim societies since beginning of Islamic era and has played a significant role in the social and economic development of the Muslim and wider communities, worldwide. The Waqf is entrusted with a great deal of fiduciary responsibilities and it is essential to safeguard the interests of the beneficiaries



and curb any possibilities of corruption and malpractices. With the evolution of better governance structures and technological advancements influencing all spheres of socioeconomic lives, the board agreed that it was necessary to rethink the rules of governance for the Waqf to achieve the Waqf objectives in a more effective and efficient manner. The standard provides the core principles of governance (from both, corporate governance and Shari'a perspective) as applicable to the Waqf. It covers various topics including but not limited to key responsibilities and principles for establishing terms of reference of different organs of the Waqf, policies and procedures, guidance on internal control, guidance on transparency and disclosures, etc.

### 3.0 Methodology

This paper is purely a literature-review-based research work where adequate literatures relevant to the study are reviewed and the thirteen (13) AAOIFI Governance Standards are studied with a view to finding out how compliance with the standards by the IFIs could translate into achievement of their set objectives, especially the objective of growing up the wealth of the shareholders of the Islamic Financial Institutions. The expected impacts of the AAOIFI Governance Standards on the quality of Corporate Governance of IFIs in Nigeria and beyond are highlighted.

### 4.0 Expected Impact of GS on Quality Corporate Governance of IFIs

The adoption of governance standards by IFIs has a role to play in ensuring that they compete effectively on the world

stage, support stakeholder interests and to preserve their reputations. As such, compliance with AAOIFI governance standards will go a long way in ensuring quality corporate governance of IFIs. The governance standards provide strategic directions to the IFIs through accounting, products, reporting, risk, compliance and audit, among others.

GS 1 and 5 are on SSB's appointment, composition, report and independence. An independent SSB composed of specialized jurists in Fiqh al-Mua'malat, charged with directing, reviewing, and supervising the activities of the IFIs ensures compliance with Shari'a rules and principles in all dealings and transactions. Specifically, the SSB ensures the following:

- It reduces excess risk taking in IFIs.
- Compliance with this standard enables the IFIs to offer halal products to the clients. In other words, only products that are acceptable under Islamic law will be offered to clients.
- The shari'a supervisory board are made up of Muslim scholars (shari'a advisers) whose advice are sought by the IFIs whenever the need arises.
- The provision of guidance for members of SSB enables the IFIs to have independent SSB members that are honest, fair, and neutral, which strengthens the trustworthiness of the IFIs among shareholders, regulators, customers and the general public at large.

GS 2 and 3 (Sharia Review and Internal Sharia Review) ensure that IFIs comply with Shari'a in all their activities, which may include contracts, agreements, policies, products, transactions, memorandum, articles of association, and

financial reports. The two standards also cover responsibility for its implementation and ensuring full compliance with its provisions. Additionally, the standards impact of quality of corporate governance of IFIs as follows:

- The standards enhance the soundness and credibility of IFIs.
- The standards also prevent the IFIs from engaging in any transactions/ dealings that are not halal (permissible).

GS 4, 6 and 11 are on audit, governance committee and principles. Overall, governance practices play a vital role in ensuring that businesses are run in a prudent and sound manner. Complying with these standards leads to greater transparency in financial reporting, accountability, as well as enhancing the public's confidence of the IFIs in their application of Shari'a rules and principles. Lack of trust in the IFIs will affect the economic growth and development. Furthermore, the following points of value addition by the standards are:

- Compliance with the standards positively impacts on the IFIs as they allow room for improvement in the quality of corporate governance practices.
- Effective shari'a governance could be attained by IFIs if they comply with internal shari'a audit standard.

GS 7 is about corporate social responsibility, conduct and disclosure. The standard provides mandatory and recommended implementation guidelines in all aspects of the IFI's activities related to CSR. This will have a

great impact on IFIs through improved public image, increased customer loyalty and creativity.

GS 8 (Central Shari'a Board) aims to establish an advanced degree of harmonization and convergence in the work of SSBs of IFIs through CSB to iron out the situations of contradictions and differences by such entity-level boards. CSB also supervises, directs and reviews the activities of the IFIs for the purpose of sharia compliance. Complying with this standard will lead to a certain degree of consistency in products and services offered by IFIs and the promotion of standardized practices at a country level and globally. It also enhances the credibility of the IFIs and increases the confidence of its clients and investors.

GS 9 (Shari'a Compliance Function) is seen as an integral part of an IFI's governance and control structure, and elaborates on specific key objectives of the IFI with regards to its compliance with Shari'a principles and rules. The standard ensures an advanced degree of harmonization and convergence in the area of Shari'a compliance within IFIs.

An IFI that comply with GS 10 (Shari'a Compliance and Fiduciary Ratings) is perceived to be following the Shari'a in all its activities and operations and acting as a responsible fiduciary. It gives knowledge to the stakeholders -including the shareholders, investment account holders, customers, suppliers, employees, regulators and the society at large- about the level of commitment and seriousness of the IFI in terms of Shari'a compliance and fiduciary performance.

GS12 is on Sukuk Governance which sets out the standardized requirements for Sukuk issuance and management which ensures that IFIs practices in this respect are harmonized, standardized, and improved upon within the industry. Additionally, GS 12:

- Provides guidance to IFIs and also harmonizes the global regulatory practices in this respect.
- Compliance of IFIs with this standard also improves their compliance with contractual terms and minimizes investor risks.
- Allows transparent issuance of instruments and investments by the IFIs.
- Compliance with this standard increases the demand for Sukuk.

GS 13 (Waqf Governance) establishes terms of reference of different organs of the Waqf, policies and procedures, guidance on internal control, guidance on transparency and disclosures, etc. Adherence to the standard allows IFIs to safeguard the interests of the beneficiaries and curb any possibilities of corruption and malpractices. It also allows the IFIs to have good governance framework that can improve accountability and transparency of the IFIs.

## 5.0 Conclusions and Recommendations

Based on the reviews and discussions above, the paper concludes as follows:

- i. AAOIFI came up with framework for effective corporate governance mechanisms (through standardization of the corporate governance system) to be used by IFIs for their operations in the best

interest of investors, investment account holders and all other stakeholders. This could be seen from the expected impact of GS 4 and 6, where audit and governance committee, and statement on governance principles were emphasized.

- ii. The governance standards play a vital role in ensuring that businesses are run in a prudent and sound manner. Complying with these standards leads to greater transparency in financial reporting; as well as enhancing the public's confidence of an IFI in its application of Shari'a rules and principles. This could be seen from the expected impact of GS1, 2, 3 and 9 where shari'a supervisory board; appointment, composition and reports; and shari'a review and compliance functions were emphasized.
- iii. The highlight of the 13 Governance Standards for Islamic Financial Institutions (GSIFI), so far issued by AAOIFI, aim to wet or entice the appetite of scholars in the field of Corporate and Public Governance to develop high interest in conducting studies on the standards the way they pay research attention to conventional Corporate Governance and Public Governance matters. This could be seen from the discussions made on all the 13 GSIFI, where it was made clear that AAOIFI is interested in ensuring that its Governance Standards assure the effectiveness of Corporate Governance of Islamic

Financial Institutions.

- iv. The paper is an attempt at ensuring that the quality of the AAOIFI 13 GS is improved upon continuously so as to ensure continuous improvement in the quality of governance in the Islamic financial services industry. This could be seen from the expected impact of GS, where it was emphasized that GSIFIs demand continuous improvement for them to meet up
- v. with the demand of higher quality than the quality of the Corporate Governance System of the individual Islamic Financial Institutions.

Based on the conclusions above, the paper recommends as follows:

- i. Islamic Financial Institutions (IFIs) in Nigeria should comply with the framework of AAOIFI's governance standards in their own best benefit and in the overall benefits of relevant stakeholders.
- ii. To ensure that IFIs are run in a prudent and sound manner, which would lead to their greater transparency in financial reporting, and enhance public's confidence in them, there is high need for their compliance with Shari'a rules and principles. AAOIFI should, therefore, design measures that will encourage or motivate the Islamic financial Institutions to comply fully with the issued standards.
- iii. AAOIFI should ensure that scholars and professionals in the

field of Corporate and Public Governance are encouraged to pursue high level research on the practicality of all the 13 Governance Standards through a sort of Research Grant, and also organize sensitization workshops and seminars to popularize the Governance standards among owners and managers of Islamic Financial Institutions, scholars and professionals in Islamic Finance and other interest groups.

- iv. The AAOIFI should aim at improving the quality of its standards continuously for better quality of governance in the Islamic financial services industry.

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