



General Guidelines on
**Shariah-based
Governance (GTU-s)**



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Governance (GTU-s)**



Prepared By
**TASK FORCE ON GOVERNANCE OF
ISLAMIC AGENCIES UNDER THE PURVIEW OF
THE PRIME MINISTER'S DEPARTMENT**

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MESSAGE FROM HON. PRIME MINISTER

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

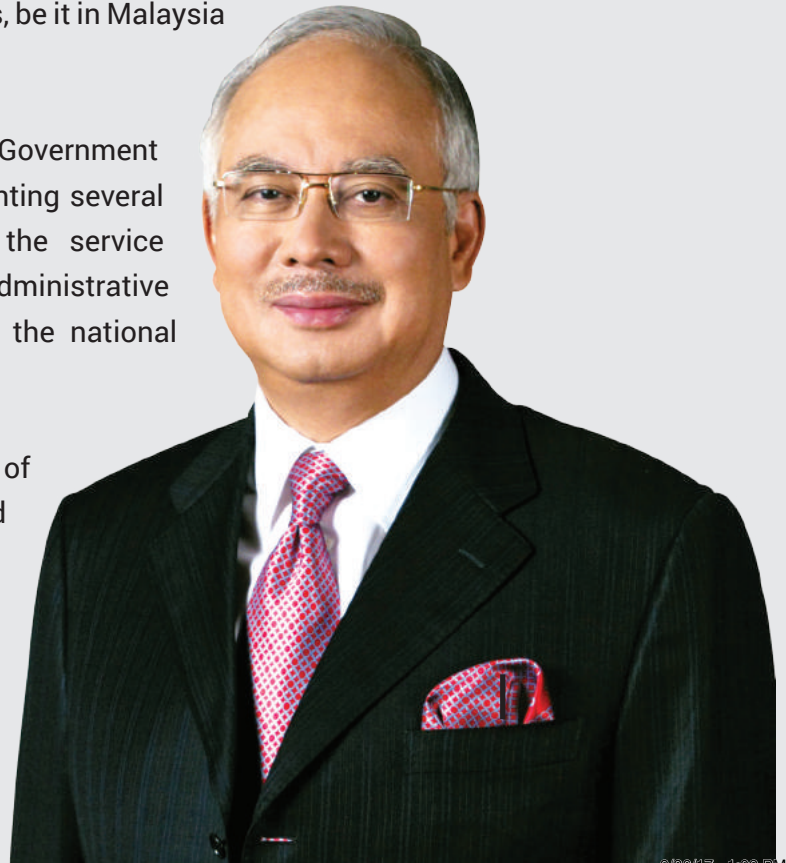
In the name of Allah, the Most Gracious, the Most Merciful.

Alhamdulillah, praise be to Allah SWT; firstly, let me congratulate the Governance Task Force for this breakthrough and their unrelenting efforts in producing the first ever General Guidelines on Shariah-Based Governance (GTU-s) in Malaysia. I believe this guideline is another innovative product to complement the Malaysian Shariah Index that was introduced in 2015.

I was made to understand that this guideline is specifically designed to serve as a source of reference and guide for Federal Islamic institutions, especially for agencies under the purview of the Prime Minister's Department. However, I am confident that the universal values and good governance practice as advocated in Islam, is suitable and relevant for all agencies, be it in Malaysia or abroad.

This is definitely a timely endeavour, as the Government has begun to spearhead efforts in implementing several initiatives and programmes to enhance the service delivery system and capabilities at various administrative levels within the Government, in line with the national development agenda.

To ensure the effective implementation of our initiatives and programs, we need solid capabilities, competencies and skills of the



Government's human capital. The success of these initiatives largely depends on the officers' ability to carry out their responsibilities professionally and with integrity. In this regard, the systems, procedures and work processes need to be continuously improved, so that the government's workforce becomes more efficient and effective, in line with the Shariah.

Therefore, I view this guideline as an important document to be understood, appreciated and applied in the governance system at all levels, particularly in Federal Islamic institutions, thus enabling them to lead the other institutions by example.

I hope more efforts will be undertaken through discourse, campaigns, education, research and continuous improvement to ensure this General Guidelines on Shariah-Based Governance (GTU-s) can be accepted and adopted widely as another innovative product to enhance the administrative system. By doing so, it is hoped that the Islamic institutions would, from time to time, augment their service delivery system towards actualising the National Transformation 2050.

Thank you.

HON. DATO' SRI MOHD. NAJIB BIN TUN HAJI ABDUL RAZAK

MESSAGE FROM MINISTER IN THE PRIME MINISTER'S DEPARTMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah, the Most Gracious, the Most Merciful.

الْحَمْدُ لِلَّهِ رَبِّ الْعَالَمِينَ وَالصَّلَاةُ وَالسَّلَامُ عَلَى أَشْرَفِ الْأَنْبِيَاءِ وَالْمُرْسَلِينَ وَعَلَى آلِهِ وَصَحْبِهِ أَجْمَعِينَ .

Alhamdulillah, praise be to Allah SWT, as it is with His will and blessings that the Governance Task Force for Islamic Agencies under the Prime Minister's Department successfully completed the first ever General Guidelines on Shariah-Based Governance (GTU-s) in Malaysia; and I believe it is even the first ever in the world.

This endeavour is in line with the Hon. Prime Minister's aspiration to ensure the governance aspects of Islamic agencies under the Prime Minister's Department are assessed and for enhancement efforts to be undertaken, in consonance with current needs. In line with that aspiration, the Governance Task Force for Islamic Agencies under the Prime Minister's Department has developed a guideline that can serve as a model to be benchmarked upon by all Islamic agencies.

As Minister in the Prime Minister's Department, I have been entrusted to oversee 15 Federal Islamic agencies. The unique aspect is these agencies are different from one another, in terms of size, resources, and the laws and regulations they are subjected to. Hence, it is hoped this guideline would serve as a cross sectoral guide that can be applied jointly in a collaborative manner, while taking into account the prevailing laws and regulations for each agency.



The issuance of such a guideline is a testament of my commitment and dedication as the Minister-in-charge, together with the leadership echelon and staff members of all Islamic agencies under the Prime Minister's Department to ensure excellent service to the society, especially the Muslims.

The Shariah, which forms the thrust of this GTU-s is thus a reflection of Islam's sanctity, which amongst others, is manifested in the form of the best governance system to be applied, and hence ensuring all responsibilities entrusted are carried out honestly, transparently and effectively.

I would once again like to express my sincere appreciation and thanks to the Governance Task Force for Islamic Agencies under the Prime Minister's Department, the Department of Islamic Development Malaysia (Jakim) as the secretariat and all parties that have directly or indirectly contributed to the formulation and publication of this guideline. May all our contributions be counted as good deeds that benefit the ummah.

Thank you.

HON. MAJOR GENERAL DATO' SERI JAMIL KHIR BIN HAJI BAHAROM (R)

MESSAGE FROM CHIEF SECRETARY TO THE GOVERNMENT OF MALAYSIA

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah, the Most Gracious, the Most Merciful.

Assalamualaikum warahmatullahi wabarakatuh,

Praise be to Allah SWT, Lord of all the worlds. Salutations and blessings upon Prophet Muhammad PBUH.

I am truly proud of the efforts and commitment exemplified by Federal Islamic agencies in ensuring the services provided to the society, particularly the Muslims, are constantly improved and consistent with the Shariah. This is evidenced through the publication of the General Guidelines on Shariah-Based Governance (GTU-s) that would serve as a joint source of reference and guide for the relevant agencies.

Islamic agencies play the role of a change agent by delivering efficient services to manage the people's interests. Thus, the publication of this guideline opens up a new dimension, especially in terms of being the main reference in implementing the transformation of the governance of Islamic agencies. This GTU-s has been developed to be in parallel with the role of every Islamic agency in spearheading the management of Islamic affairs. Though every Islamic agency has its own structure, functions and roles, they nevertheless share the same goal, namely to uphold the magnificence of Islam in this beloved country of ours.



With regard to transformation, every government agency must always be ready to implement changes to fulfill the people's expectations. I hope this guideline would not only be the reference and guide for Islamic agencies at the Federal level, but at the State level as well.

I would like to take this opportunity to express my thanks and appreciation to all parties who have contributed their ideas and energy in developing this guideline. May Allah SWT be pleased and grant us His rewards for our sincere efforts.

Thank you.

TAN SRI DR. ALI HAMSA

Executive Summary

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah, the Most Gracious, the Most Merciful.

The General Guidelines on *Shariah*-Based Governance (**GTU-s**) are aimed to be universally applied to facilitate the Federal Government's Islamic institutions (**Institutions-i**) under the purview of the Prime Minister's Department to uphold sound governance and adherence to rules in a comprehensive and integrated manner. It may be used as reference and guidance for those serving Institutions-*i* including the Board members, management team, officers and all stakeholders whom are entrusted with the responsibility to manage, implement and supervise the performance of every Institution-*i*.

For the purpose of this GTU-s, "**Board**" according to its respective context refers to:

- (a) Board of Directors (if the Institution-*i* is a corporation, statutory body or private company);
- (b) Board of Trustees (if the Institution-*i* is a foundation or trust entity);
- (c) Any board of officers/senior management (if the Institution-*i* is a Government department or agency); or
- (d) Any board, council or committee responsible for its governance equivalent or similar to the above in the respective Institution-*i*.

GTU-s is specifically formulated to be used by Malaysian Institutions-*i*, in particular those under the purview of the Prime Minister's Department; however it is believed that this document is also relevant and can be applied by any agency or Islamic institution similar to the Institutions-*i* across the globe as the source of reference and guidance in relation to governance framework and best practices. This GTU-s is the first of its kind initiative in the world in terms of pioneering a **cross sectoral** general guideline that encapsulates both the public and private sectors, in assisting Institutions-*i* to implement and to establish sound governance with integrity.

This GTU-s also provides details on methodologies for its application and implementation across six main activities within the strategic management and

operations of an Institution-*i*. In this context, it is noted that this GTU-s attempts at being comprehensive without being exhaustive; bearing in mind the well-established mantra for global best practices on governance around the world, namely that “no one-size fits all”, i.e. not all governance aspects can or must be standardised – on the contrary, it should be adapted accordingly, among others to commensurate with an organisation’s objectives, sizes, applicable laws and regulations, stakeholders as well as other factors setting the background of an organisation.

We fully support the widespread adoption of this GTU-s. All parties are encouraged to contribute towards its continuous enhancement so that its aspirations and contents remain vibrant and relevant.

**HON. SENATOR DATO' DR. ASYRAF WAJDI
BIN DATO' DUSUKI**

Deputy Minister in the Prime Minister’s Department
(Religious Affairs)
cum Chairman of Task Force on Governance of
Islamic Agencies Under the Purview of the Prime
Minister’s Department.



i. Introduction

This GTU-s provides a set of basic framework as guidance for governance best practices in an Institution-*i*. This GTU-s is the result of various consultation initiatives, workshops, researches, lessons learnt and the experiences obtained during the transformation processes implemented by several local and international organisations. This document should be read together with the existing regulations, guidelines and circulars applicable to the Institution-*i*.

A. Objectives

1. This GTU-s is developed to assist Institutions-*i* in determining the right benchmarks and continuously improve their governance practices and management system. This would enable Institutions-*i* to efficiently, effectively and sustainably provide value to the *ummah*, as well as fulfilling the aspirations of the Government and society.
2. This GTU-s may be referred to by those serving Institutions-*i* at every level in order to ensure that the services that they provide to the society is in line with the *Shariah* and safeguards *ummatic* interest. It aspires to elevate better accountability, integrity and transparency in the governance of Institutions-*i*.
3. Specifically, the objectives of this GTU-s are:
 - (a) To outline the values and general principles of *Shariah*-based governance in line with the Quran and Sunnah;
 - (b) To strengthen Institutions-*i* in conformance with the spirit of the Federal Constitution;
 - (c) To uphold the application and implementation of the values and principles set out hereunder in the strategic management and daily operations of Institutions-*i*;
 - (d) To ensure that any misbehaviour relating to governance can be prevented in order to preserve the integrity of Institutions-*i*; and
 - (e) To develop skills, efficiencies, attitudes and excellent work cultures to empower the human capital in Institutions-*i*.

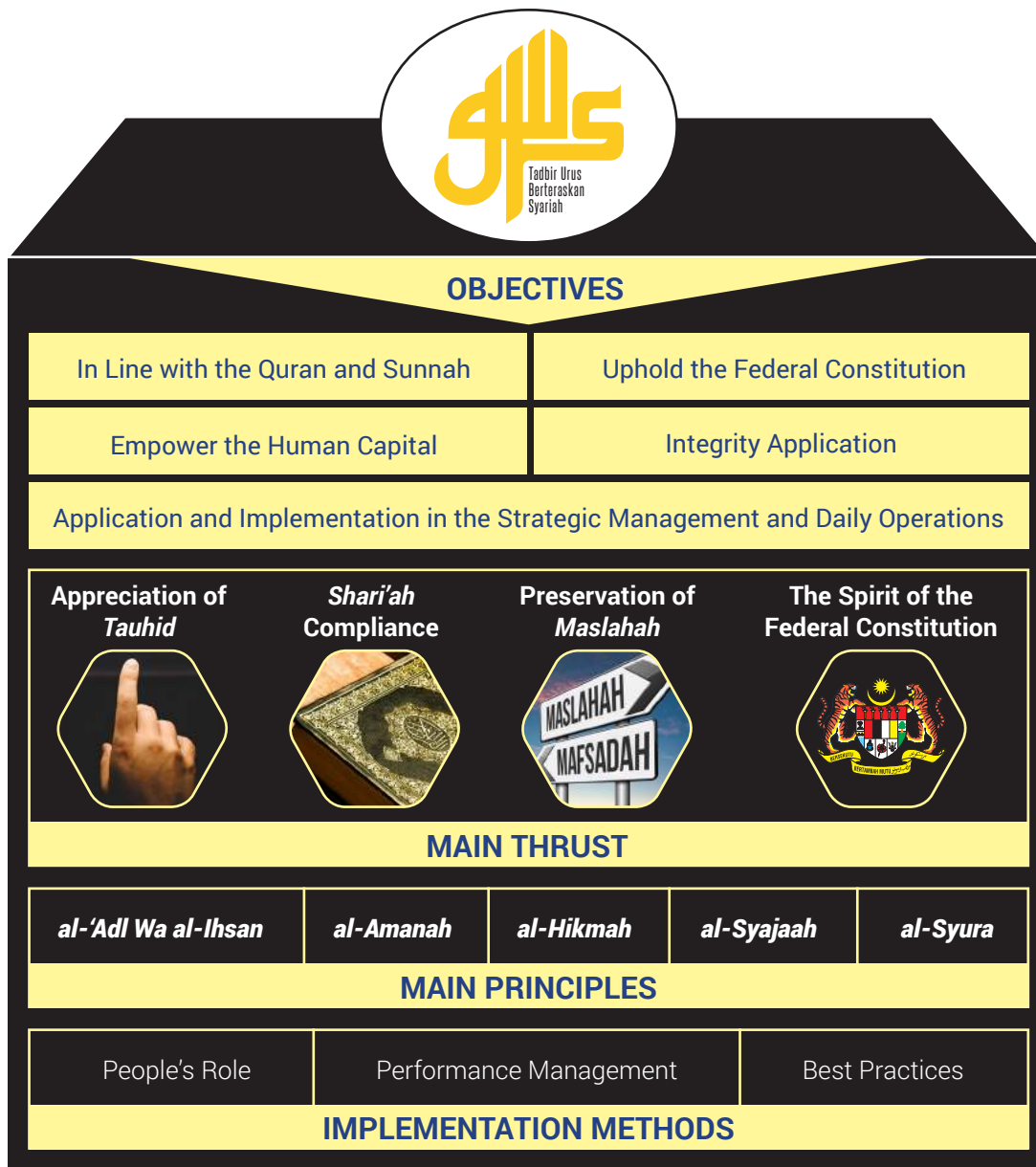


Diagram 1: Framework of General Guidelines on Shariah-Based Governance (GTU-s)

B. Intended Audience

4. This GTU-s is aimed at the people serving at every level of an Institution-*i*, including its Board members, management team, officers and all stakeholders whom are entrusted with the responsibility to spearhead the direction, to implement and supervise the performance and operations of an Institution-*i*.

5. This GTU-s seeks to help improve and reinforce the framework for public governance in Institutions-*i*. In the context of Institutions-*i* under the Prime Minister’s Department, there are various different legal form of organisations including Government agencies, foundations, statutory bodies and private companies. In fact, each organisation is also very diverse in terms of size, resources and operational period (Refer Diagram 2). Every Institution-*i* has its own governance rules and procedures. Therefore, for completeness and to enhance this GTU-s, it should be read alongside the other currently applicable governance rules and procedures of that Institution-*i*.

6. In addition, this GTU-s may serve as a basic reference for an expanded and enlarged scope to cover other aspects of governance that may require more detailed and specific governance rules and procedures, including for augmenting integrity, work ethics and conduct, whistleblowing procedures, management of conflicts of interest and internal controls.

This GTU-s is premised on 4 core elements, namely the Appreciation of *Tauhid*, *Shariah* Compliance, Preservation of *Maslahah* dan the Spirit of the Federal Constitution.

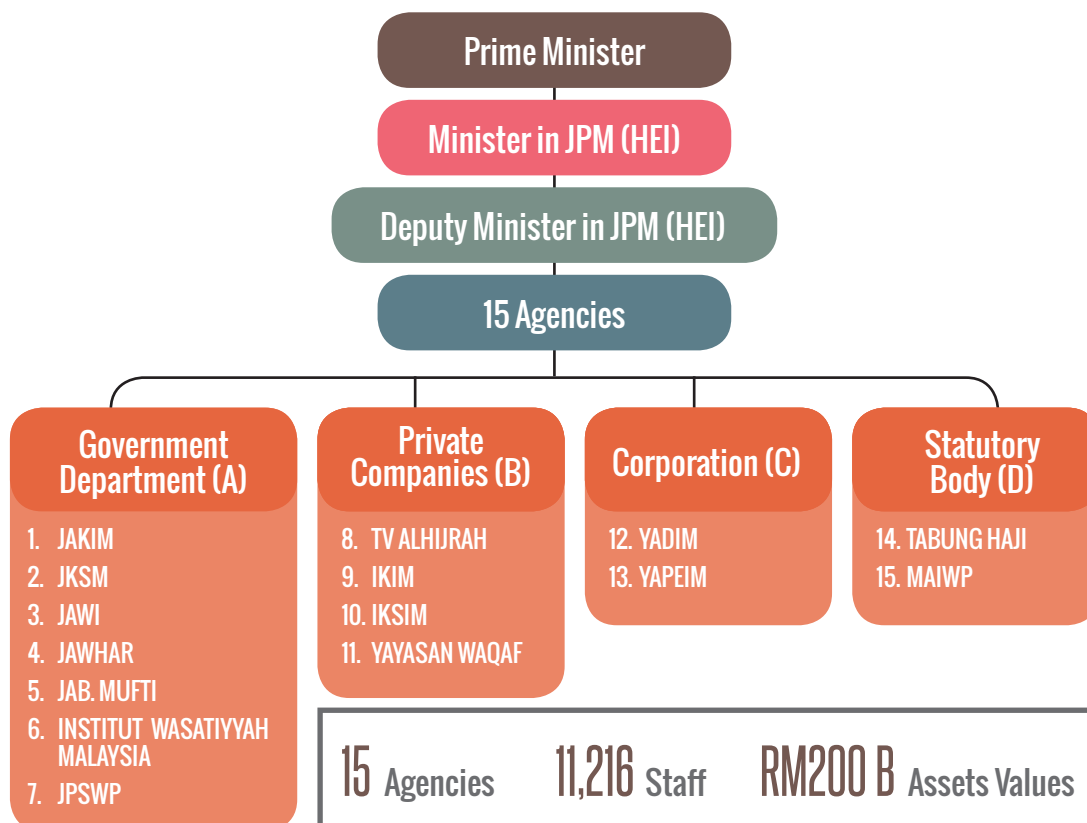


Diagram 2: The Structure of Federal Islamic Agencies

ii. Main Thrusts of *Shariah*-Based Governance

A. Appreciation of *Tauhid*

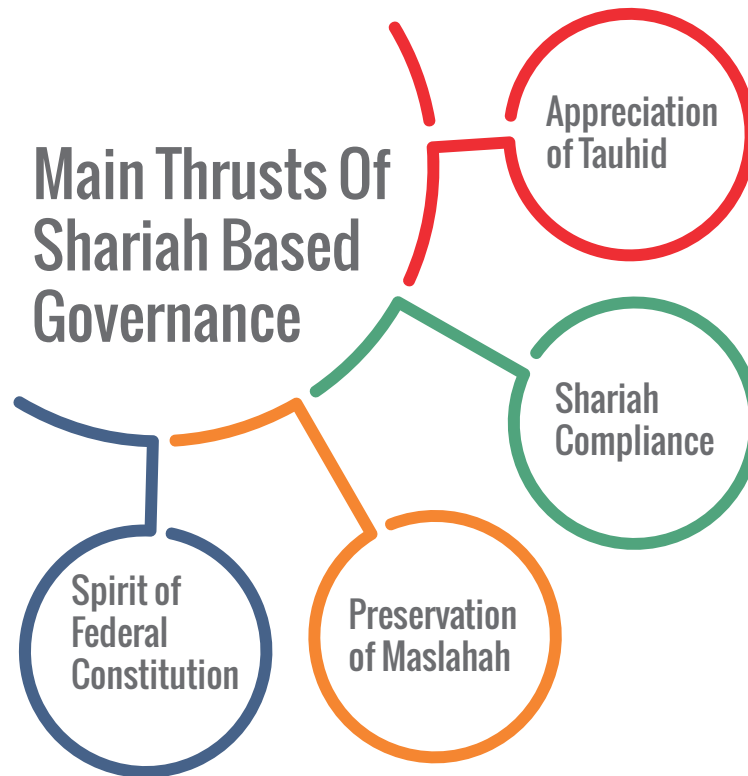


Diagram 3: Main Thrusts of *Shariah* Governance

7. To implement *Shariah*-based governance includes working religiously, which is a part of the impositions of Islam as a way of life (*ad-din*). It is obligatory upon every Muslim to believe in Allah the Almighty (*Tauhid*) as the core and focus of his subservience. This Appreciation of *Tauhid* needs to be manifested integrally in the various behavioural processes and *Shariah*-based governance practices.
8. Islam as a complete way of life (*ad-din*) always provides guidance towards excellent governance culture and practices. The Appreciation of *Tauhid* requires proper balancing between the physical and the spiritual, the relationship between human and Allah (*hablun minallah*), the relationship amongst humans (*hablun minannas*), the relationship with work (*hablun minal 'amal*) and the relationship with the environment (*hablun minal alam*).

These balances inculcate and embed positive attitudes and excellent work ethics, in line with the Appreciation of *Tauhid*.

B. *Shariah* Compliance

9. *Shariah*-based governance emphasizes on compliance with the *Shariah* that motivates every muslim and Institution-*i* to take into their proper consideration the aspects of *halal* and *haram*, *mutasyabihat*, sins and rewards, this world and the Hereafter, paradise and hellfire, as well as *taqwa* and moral values.
10. The *Shariah* helps to navigate and show to mankind the straight path in the course of undertaking any activity according to the values and parameters set by Islam, including when it comes to the affairs of governance.

C. Preservation of *Maslahah*

11. *Maslahah* refers to safeguarding the welfare and the interest of the *ummah* and the environment generally. It prevents harm and is based on three categories of interests and priorities; namely ***Dharuriyyat***, ***Hajiyyat*** and ***Tahsiniyyat***.
12. ***Dharuriyyat*** refers to everything that is compulsorily necessary in man's religious and worldly life. In other words, without it, a man's life on earth could be impaired and chaotic. The *Dharuriyyat* requirements are measured based on the necessity to protect and preserve the five components of the objectives of the *Shariah* (*Maqasid Shariah*), namely (a) religion (b) life (c) intellect (d) lineage and (e) wealth. Accordingly, any action or conduct that could harm any of these components is prohibited by Islam. Conversely, any action or conduct that protects and preserves the five components is highly encouraged and demanded.
13. ***Hajiyyat*** refers to anything that is needed by mankind to avoid hardships and remove difficulties. Its absence would lead to hardships and difficulties, but not to the extent of impairing life.
14. ***Tahsiniyyat*** refers to matters which are driven by a man's honour and virtuous morals to earn a better living condition. It can be said that *tahsiniyyat* are things that complement life for us to live a more comfortable life.

15. In determining the nature of a need, its considerations and implementation to be in consonance with *Dharuriyyat*, *Hajiyyat* and *Tahsiniyat*, Institutions-*i* can refer to the view of Dr. Yusof al-Qaradawi (1996) in his book, *Fiqh al-Awlawiyyat*, by:
- (a) Placing priority on *Dharuriyyat* matters over *Hajiyyat* dan *Tahsiniyat* matters;
 - (b) Focusing on the *maslahah* of matters that are believed to be more likely to succeed than on matters that are believed to be less likely to succeed;
 - (c) Giving priority to bigger *maslahah*, compared to smaller *maslahah*;
 - (d) Giving priority to *maslahah* that benefits the public at large, rather than *maslahah* that only benefits certain individuals or group of people; and
 - (e) Giving priority to *maslahah* that would be more lasting and continuous, rather than *maslahah* that is temporary and short-term in nature.
16. The requirement for Institutions-*i* to manage *maslahah* is clearly aimed at preserving and conserving the interest of the *ummah* and the cosmos, in conformance with verse 195, *surah al-Baqarah* which means:

“And spend (whatever is in your possession) for the cause of (establishing the religion of) Allah, and do not cast your-selves into destruction with your own hands (by your niggardliness). And persevere in doing good, for allah loves those who do no good.”

Likewise, the Prophet PBUH said:

“There should be neither harming nor reciprocating harm.”

(Hadith Narrated by Ibn Abbas, Sunan Ibn Majah no. 2341).

17. The determination of *maslahah* in any matter can also be done by taking into account the view of al-Syatibi which recommends three conditions, namely that:
- (a) The *maslahah* must be a necessity that involves the larger part of the society instead of a small group or certain parties only;
 - (b) The *maslahah* must be free from the narrow interest of the parties who know about the determination of the *maslahah*; and
 - (c) The *maslahah* must not in any way contravene the teachings of the Quran and Sunnah.

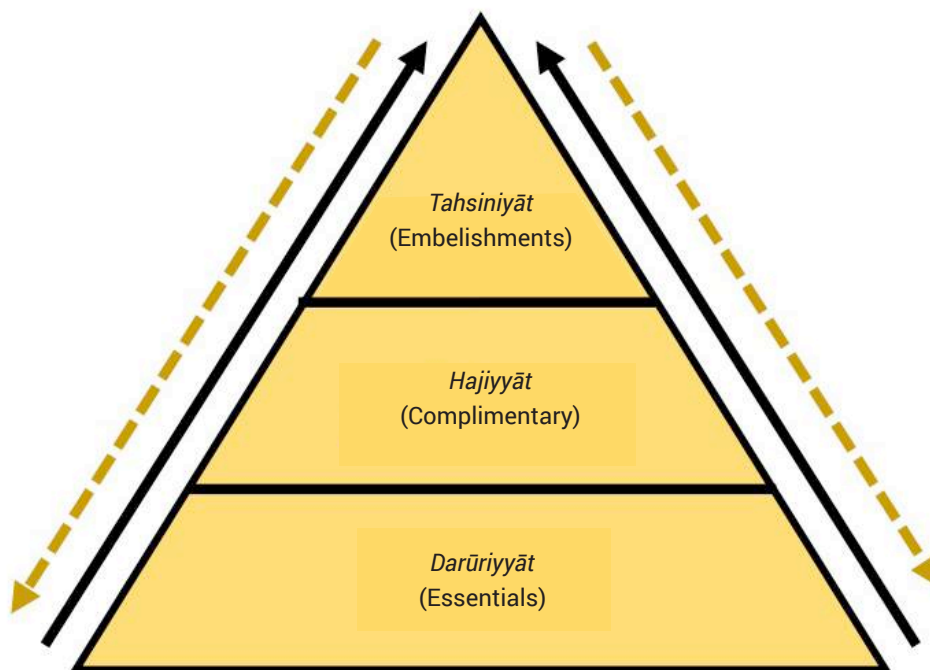


Diagram 4: The Pyramid of Maslahah

Source : Adapted from Asyraf Wajdi, 2005, *Corporate Social Responsibility of Islamic Banks in Malaysia: A Synthesis of Islamic and Stakeholders' Perspectives*

D. The Spirit of the Federal Constitution

18. Article 3 (1) of the Federal Constitution enthrones Islam as the “religion of the Federation”. This is reinforced by the role of the King and His Majesty’s oath of office as mentioned in Article 37 to “protect the Religion of Islam at all times”.
19. The Federal Constitution and the King’s oath of office are the source of authority for the establishment and development of various Institutions-*i* in Malaysia. In this regard, it is the duty and responsibility of everyone serving Institutions-*i* to uphold the sovereignty of Islam as the national religion.
20. In summary, it is the responsibility of everyone serving Institutions-*i* to ensure the implementation of *Shariah*-based governance in conformance with the Appreciation of *Tauhid*, *Shariah* Compliance, Preservation of *Maslahah* and the Spirit of the Federal Constitution.

21. The individual responsibility of everyone serving Institutions-*i* towards his organisation is not merely an employer-employee agreement with a contractual salary, but more importantly, it is a contract between him and Allah SWT; a contract that he will be accountable for in the Day of Judgement.

iii. Main Principles of *Shariah*-Based Governance

The five main principles that must be adhered to by everyone serving Institutions-*i* to ensure *Shariah*-based governance in their respective organisation are *al-Amanah*, *al-'Adl wa al-Ihsan*, *al-Syura*, *al-Syaja'ah* and *al-Hikmah*.

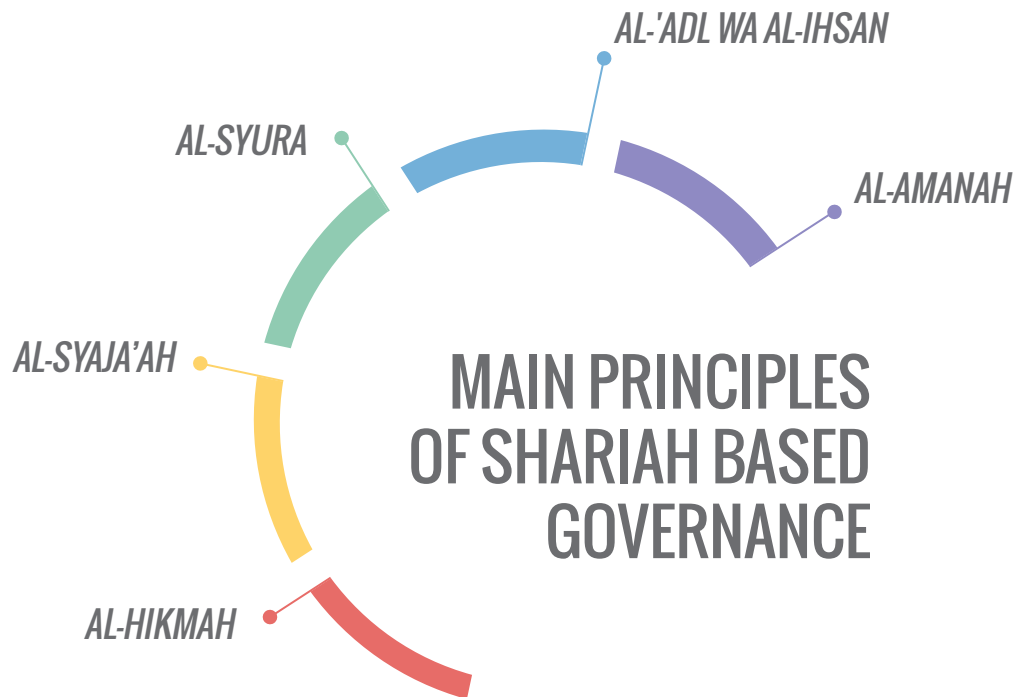


Diagram 5: The Main Principles of *Shariah*-based Governance

A. *al-Amanah*

22. *al-Amanah* refers to the senses of responsibility, accountability and honesty in performing duties, as prescribed by Islam. Allah SWT states in verse 8, *surah al-Mu'minuun*:

"Those who faithfully observe their trusts and their covenants."

23. Before someone is given the power and responsibility by his employers or superiors, either in the form of a post, position, authority, autonomy, salary or other types of remunerations, indeed even before that, he had already been accorded the mandate and trust by Allah the Almighty to serve as a vicegerent on earth. The Prophet PBUH said, meaning:

"Every one of you is a shepherd and is responsible for his flock..."

(Sahih Muslim no. 1829).

The Importance of the Principle of *al-Amanah* for Institutions-*i*

24. When *al-Amanah* is epitomised by everyone in Institutions-*i*, then they would become personalities of solid integrity and able to:
- (a) work with full dedication and commitment, even without the close supervision by their employers or superiors;
 - (b) provide quality and friendly services without being bias and without expecting rewards only;
 - (c) avoid any misconduct, mismanagement, abuse of power and breach of trust, even when there are wide and ample rooms of opportunities to do so;
 - (d) assess and conduct improvements regularly from time to time, without waiting for instructions from their employers or superiors;
 - (e) enhance their skills, and voluntarily and wholeheartedly overcome any weaknesses in their performance;
 - (f) contribute continuously towards quality service, although they have already achieved high performance (for example, had been rewarded with excellent performance award); and
 - (g) willing to share their knowledge and experience with their colleagues in the organisation, so that any success or failure factors can respectively be achieved or addressed through teamwork.
25. When the principle of *al-Amanah* is ignored, governance affairs in Institutions-*i* could be vulnerable to various risks of abuses, which would be detrimental to the institution's and Government's credibility, on top of incurring losses due to fraud, extravagance, wastages and leakages of resources.

B. *al-'Adl wa al-Ihsan*

26. The principle of *al-'Adl* means to deal with something by taking into consideration the circumstances or needs, and giving something to the rightful person, according to right and valid tenets and conditions. The call to practise *al-'Adl* and to avoid oppression (*zulm*) is stated many times in the Quran; amongst others in verse 90, *surah al-Nahl*:

"Allah enjoins justice, kindness and charity to one's kindred."

27. The Prophet PBUH said:

“Verily, the leader is only a shield behind whom they fight and he protects them. If he commands the fear of Allah the Exalted and justice, then he will have a reward. If he commands something else, then it will be against him.”
(Sahih Muslim 1841).

28. *al-Adl* comes together with *al-Ihsan*, which is obeying Allah SWT as if we can see Him; with full and honest awareness that even if we try to conceal something from the supervision or knowledge of others, Allah SWT would still know about it.
29. The principle of *al-Adl wa al-Ihsan* refers to the need and duty of everyone serving Institutions-*i* to perform quality work and deliver excellent service to the society. *al-Ihsan* also refers to *ahsan* and *hasan*, which denotes quality and excellence in performing good deeds, as evidenced by the word ‘*Wa ahsinu*’ in the Quran, amongst others in verse 195, *surah al-Baqarah*:

“And persevere in doing good, for Allah loves those who do good.”

30. Those serving Institutions-*i* really need to perform their duties with *al-Adl wa al-Ihsan* and manifest these values in the form of good governance practices in their organisations, especially as we live in a world that is *volatile, uncertain, complex* and *ambiguous* – or in short, **VUCA**.

The Importance of *al-Adl wa al-Ihsan* for Institutions-*i*

31. *al-Adl wa al-Ihsan* is essential in the governance of Institutions-*i*, as it motivates everyone serving Institutions-*i* to strive towards attaining the pleasure of Allah SWT. This work culture would translate into quality and excellent service at Institutions-*i*.
32. Some examples of the culture of *al-Adl wa al-Ihsan* in the context of *Shariah*-based governance are as follow:
- In distributing allocations, Institutions-*i* must be *al-Adl wa al-Ihsan* and be guided by the four core thrusts of GTU-s.
 - Institutions-*i* can demonstrate *al-Adl wa al-Ihsan* in their efforts to enjoy good and forbid evil, and doing this without fear or favour.

- (c) When doing business, Institutions-*i* must be *al-'Adl wa al-Ihsan*, by not pursuing profit as their sole objective to the extent of exploiting the weaknesses of others.
- (d) Institutions-*i* should leverage on the resources and support given by Government with *al-'Adl wa al-Ihsan*, and ensure that those resources are not misused.

C. *al-Syura*

- 33. The principle of *al-Syura* refers to open and honest communication in providing and seeking inputs to ensure success in the decision-making process.
- 34. Allah SWT mentions in verse 159, *surah Ali Imran*, meaning:

"Therefore, pardon them (for the wrong that they did to you) and implore Allah to forgive them. And take counsel with them in the conduct of affairs of public concern (pertaining to war and worldly matters)."

- 35. The Prophet PBUH said, meaning:

"Whoever gives the pledge of allegiance to anybody among you without consulting the other Muslims, neither that person, nor the person to whom the pledge of allegiance was given, are to be supported, lest they both should be killed."

(Sahih al-Bukhari 6830).

The Importance of *al-Syura* for Institutions-*i*

- 36. Through the following methods, the implementation of the principle of *al-Syura* would manifest transparency in the governance of Institutions-*i*:
 - (a) Providing adequate avenues and channels to those serving Institutions-*i* for them to give their feedback as part of the decision-making process.
 - (b) Referring to those with the right expertise to ensure the best decision.
 - (c) Providing adequate avenues and channels to the general public and all stakeholders to give their feedbacks, opinions, ideas and to lodge complaints.

(d) Garnering support from the general public for all efforts and initiatives undertaken by Institutions-*i*.

37. The benefits obtained from the activities performed can be optimised when Institutions-*i*, through *al-Syura*, enjoy the support and involvement of all their employees, stakeholders, subject matter experts and the general public. This would in turn prevent conflicts of interest in the governance of Institutions-*i*.

D. *al-Syaja'ah*

38. *al-Syaja'ah* refers to being courageous, steadfast and unwavering in defending and upholding the truth rationally, with the sole purpose of seeking the pleasure of Allah SWT. Allah SWT mentions in verse 139, *surah Ali-Imran*, meaning:

“And do not despair (in your struggle in the defence and promulgation of Islam), nor grieve (for what will happen to you), for you shall surely gain the upper hand (against your enemy) if you are (true) believers.”

The Importance of *al-Syaja'ah* for Institutions-*i*

39. The practise of *al-Syaja'ah* wholeheartedly would create Institutions-*i* that exhibit these qualities:
- (a) Absolute faith in the assurances of Allah SWT, such that they place more importance on seeking the pleasure of Allah SWT, rather than seeking the pleasure of His creations.
 - (b) Being brave to uphold the truth rationally, though they are aware of the risks.
 - (c) Resilient in the face of challenges and adversities.
 - (d) Ability to safeguard the organisation's secrets, as entrusted.
 - (e) Control over emotions and exercising restraints, as well as willingness to forgive the mistake of others.
 - (f) Being bold enough to admit one's own mistake and accept full accountability for every decision made and action taken.
 - (g) Being objective of oneself, i.e. being conscious of one's strengths and weaknesses, and willingness to accept criticism and learn from others.
 - (h) Capable of applying creative and innovative values.

E. *al-Hikmah*

40. *al-Hikmah* encapsulates such a wide array and detailed connotations, so much so that some scholars define it as a profound understanding based on knowledge and rational thinking to come to a truth. It also refers to wisdom, conscientiousness, accurate view, clarity and insightful opinions, and performing good deeds premised on that wisdom. Allah SWT says in verse 269, *surah al-Baqarah*, meaning:

“Allah grants wisdom (useful knowledge) to whom He wills (according to the rules and norms dictated by His divine will). And whoever is granted the gift of wisdom has indeed been granted abundance of goodness. Yet none except men of understanding bear this in mind.”

The Importance of *al-Hikmah* for Institutions-*i*

41. The principle of *al-Hikmah* in *Shariah*-based governance would create an excellent work culture amongst those serving Institutions-*i*, including:
- Having clear visions, missions and goals which are achievable.
 - Wise in understanding problems and able to resolve them effectively.
 - Fair and wise in making decisions.
 - Practise a work culture based on the values of professionalism.
 - Self-empowerment towards continuous improvement at work.

iv. Implementation Methods

Successful organisations have effective system, process and people in place. The GTU-s 'connects the dot' between the role of the people of Institutions-*i*, performance management and the best practices based on the four Thrusts and five Main Principles.

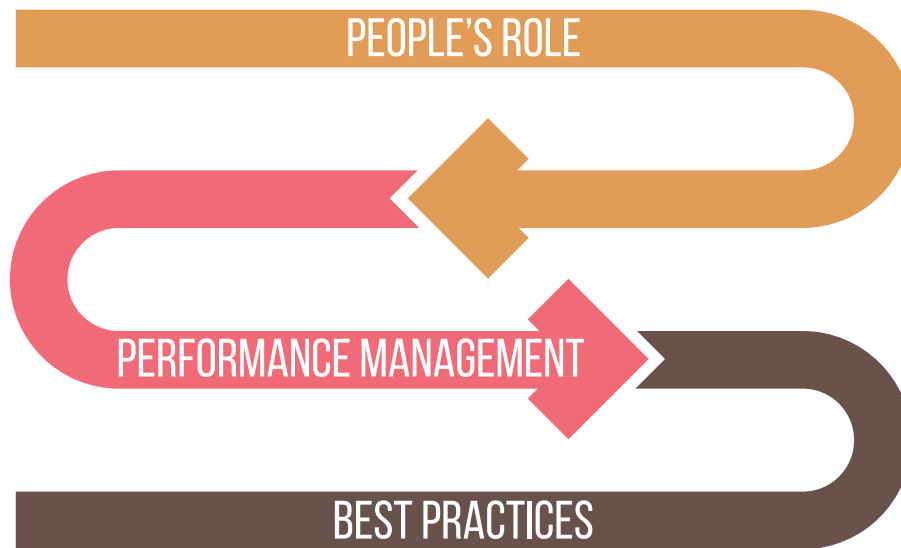


Diagram 6: The Implementation Methods of *Shariah*-Based Governance

A. People's Role

42. Those serving Institutions-*i* must play their role in **upholding, executing and demonstrating** the four Thrusts and five Principles of this GTU-s in the systems, processes and people at all strategic or operational levels of the organisation. Therefore, everyone serving Institutions-*i* must internally solidify the thrusts and principles of this GTU-s at every governance level across the entire value chain.
43. The Board members and senior management are ultimately responsible in implementing and ensuring the success of GTU-s, which are then cascaded down and disseminated to every person within the organisation systematically at all different levels, certainly taking into account appropriateness. Similar initiatives shall also be extended to include those who are directly or indirectly associated with the Institution-*i* in various legal forms; for example: subsidiaries, associate companies, foundations, etc.

44. Those serving Institutions-*i* must always be objective, professional, ethical, emphatic and uphold public interest at all times. They must have the moral courage in harnessing the right practices and correcting any wrong practices, line with the principle of ***al-Syaja'ah***.
45. The framework and the practice of independent working culture should be balanced up with the framework and the practice of working culture which encourage and facilitate experience and resource sharing, as well as cross cultivation of ideas and skills. This is important in order to prevent the situations where each Institutions-*i* only focuses on its operation “in silos”. An Institution-*i* is supposed to be able to benefit from the learning curve of other Institutions-*i*, including from their experiences in running successful and failed programmes; the ups and downs factors of an organisation; as well as rooms to duplicate or replicate effective systems and processes. This is in line with the principle of ***al-Syura*** in *Shariah*-based governance.
46. Every individual in the organisation must be empowered to implement this GTU-s commensurating with his roles and functions, and with full understanding that the governance best practices should be adapted according to the context of his organisation.
47. In order to enrich knowledge, enhance skills and increase efficiency to ensure the proper discharge of their duties vis-a-vis the trust given by the Government and the general public, those serving Institutions-*i* are encouraged to engage in lifelong learning and continuous self-improvement, whether on their own initiative or with the support of the Institution-*i*. This is in consonance with the principle of ***al-Hikmah***.

B. Performance Management

48. As shown in Diagram 7, there are four main components in a performance management system, namely strategising, planning the implementation methods of the strategies, executing the plan and reviewing the effectiveness of the implementation process. A detailed elaboration on the main aspects of performance management will be discussed in Part V.



Diagram 7: The Main Components in a Performance Management System

C. Best Practices

49. This GTU-s is applicable in many aspects of an organisation. As a starting point for Institutions-*i*, this GTU-s recommends the following six best practices as the platform to ensure smooth and effective governance:



Diagram 8: *Shariah*-Based Governance Best Practices

The Effectiveness of the Board and Senior Management

50. It is the role of the Board and the senior management of Institutions-*i* to lead the organisation within prudent and effective control framework to ensure that the operations, activities, risk level, human capital and remuneration system of the organisation are evaluated and managed appropriately. The Board and the senior management should develop and encourage a common vision with regard to the organisation's goals, culture, values and the code of conduct to achieved within the organisation.

Control and Management of Resources

51. The system for managing and controlling resources as practised by Institutions-*i* must be proactive in monitoring performance based on the objectives that have been set at all levels of the organisation. Resources refer to all types of resources, including financial resources (such as projects, human capital, activities, processes, sales and revenue, quantity of resources, operational cost and expenses, assets, liabilities and cash flow) and other non-financial resources. As Islam and *tauhid* teach us that all the resources created by Allah SWT for the benefit of mankind is a trust from Him, thus *Shariah*-based governance demands for the utilisation and management of these resources in a prudent and optimal manner. Indeed, Allah SWT vehemently forbids any form of extravagance and wastages, such that He regards them as the norm of the *shaitan* (verses 26 - 27, *surah al-Isra*).

“And give to your kindred their due, as also to the destitute and to the wayfarers; but squander not your wealth extravagantly. Indeed the squanderers were ever the brothers of the devils, and Satan is ever ungrateful to his Lord.”

Procurement Governance

52. Efficient, transparent and effective procurement governance would help Institutions-*i* to clearly and systematically decide on the levels of accountability, communication, standards and main practices in the procurement system and process. Institutions-*i* are responsible in ensuring that their procurement governance is in line with the principles of *al-'Adl wa al-Ihsan and al-Amanah*.

Internal Controls

53. The internal control framework in every Institution-*i* needs to be fully documented, covering all details on policies, systems, and the process and procedures of internal controls; from risk management all the way to the generation and preservation of value. The implementation and operationalisation of the internal control framework must be efficient and effective enough to suit the needs and objectives of the organisation. While the reporting on and supervision of such framework must be rigorous and responsive.

Regulatory Compliance and Adherence

54. The diversity of legal forms of Institutions-*i* means that those which are business oriented¹ would be subjected more often to regulatory compliance and adherence, as compared to the other Institutions-*i* which are not business oriented.² This GTU-s is written with the understanding that most Government agencies are not involved in activities that are monitored, regulated and supervised by; and do not have to comply with the regulatory process of any specific regulatory body.³ This is indeed the case for many Institutions-*i*. This may create a perception that Institutions-*i* generally do not have precise and sound incentives to embody regulatory compliance and adherence in their governance practices.

1 For example, Tabung Haji, YaPEIM and TV Al-Hijrah.

2 For example, Jakim, YADIM, JKSM, JAWHAR and IKIM.

3 For example, the Central Bank of Malaysia, Companies Commission of Malaysia, Securities Commission Malaysia, Malaysian Communications and Multimedia Commission and other regulatory agencies.

55. Nevertheless, taking into consideration the four Thrusts and five Principles of this GTU-s that form the basic framework of *Shariah*-based governance, thus it would be proper for Institutions-*i* to practise and foster at least a minimum level of compliance amongst their staffs, for ensuring good governance. In this regard, Institutions-*i* need to assess and prepare a comprehensive list of all legal responsibilities and rules that they need to comply with.⁴
56. This would not only help to protect them from being subjected to fines/penalties and/or other enforcement actions, but compliance also helps to protect their reputation and credibility. The practise and culture of compliance would also indirectly act as a form of recognition of the rights of all stakeholders in Institutions-*i*, including the rights of the environment.

Risk Management

57. Institutions-*i* must have a rigorous process to identify risk or internal/external threats, to analyse scenarios and be proactive in dealing with situations that could affect their ability to achieve their goals. The people serving in Institutions-*i* must be equipped with the principles of ***al-Syura***, ***al-Syaja'ah*** and ***al-Hikmah*** to personify a comprehensive and efficient risk management system.

⁴ For example, aspects in relation to accounting, statutory reporting and tax obligation.

v. Implementation of Performance Management

IMPLEMENTATION OF PERFORMANCE MANAGEMENT

58. In order to achieve sustainable success, Institutions-*i* must be able to identify and leverage on all opportunities to create value for the organisation and its stakeholders, and at the same time, manage cost and risk proactively and responsively.
59. For this purpose, the people in the organisation must effectively participate and oversee the performance management system and process. Diagram 9 shows how the performance management system and process is used to develop, implement and improve every aspect of the execution of strategies.

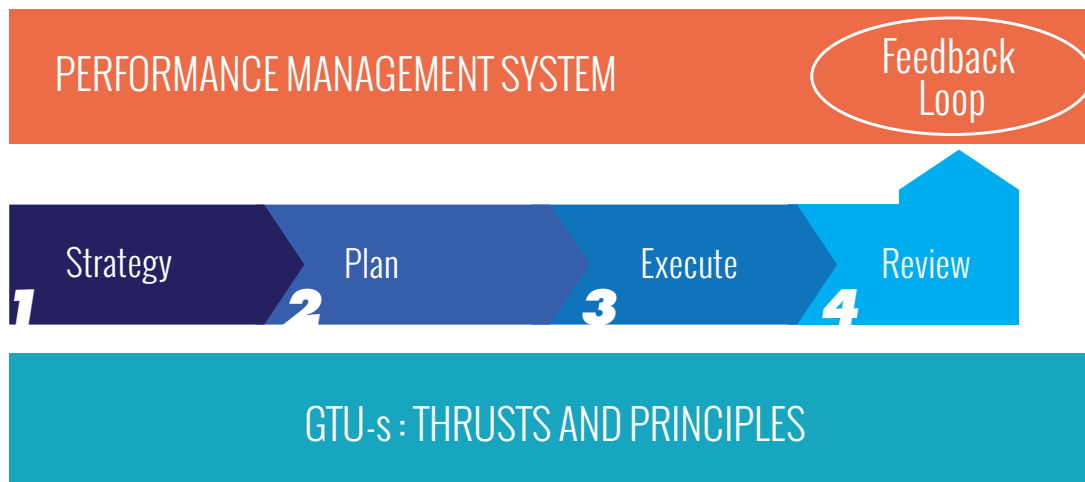


Diagram 9: The Shariah-Based Governance Performance Management System and Process

60. This includes the feedback loop that enables continuous improvement of all aspects of the organisation. The feedback loop allows Institutions-*i* to study, learn and understand the cause-and-effect of a certain level of performance. When Institutions-*i* accurately understand the reasons behind the success or failure of a certain course of action, this would enable them to collect reliable data, enrich the learning process and the overall organisational experience, to rectify their implementation methods consistently (*istiqamah*) and to avoid similar mistakes and weaknesses in the future.

61. In the same vein, as Institutions-*i* must not work in silos, the feedback loop of every Institution-*i* should be designed to facilitate the sharing of experiences and resources, as well as ideas and skills from other Institutions-*i*. In brief, every Institution-*i* should optimise the space and opportunity to benefit from the learning curve and feedback loop of other Institutions-*i* across various sectors.
62. The steps involved in managing performance include:
- (a) **Strategising** to clearly articulate the purpose of an Institution-*i*, its long term objectives and how it expects to achieve it. This step involves taking into consideration the external environment, competitive landscape, economy, and laws and regulations. This would enable the organisation's strategic position, strategic option, strategic risks and strategic implementation to be appraised thoroughly and comprehensively.
 - (b) The process of **planning the implementation** of strategies is an expression of the institution's intention and aspiration. To ensure proper planning of the implementation of strategies, the Institution-*i* needs to prepare:
 - (i) the resources needed, including financial and non-financial resources;
 - (ii) the enabling processes, so that the resources can be transformed into valuable outputs; and
 - (iii) how the monitoring activities are going to be performed to evaluate whether the implementation method chosen is accurate and whether the goals have been achieved.

A vital element in planning the implementation method is data planning. These involve the sourcing, installation, screening and presentation of all data that may be required in evaluating and prioritising the available strategic options, setting the target and its time frame, predicting results and measuring the implementation effectiveness for every method included in the plan. Thus, the planning for data requirements should be done simultaneously and in conjunction with the strategy and activity planning.

Data planning needs to include the whole value creation process. As such, it requires financial, non-financial and hybrid data in a controlled and structured environment, and customised according to the size, form and operational intensity of the Institution-*i*. Apart from set of data relating to actual results, the data evaluation method requires a specific data set that is related to forecasts, budgets and comparisons that are guided by the appropriate benchmarks. It has always been the norm for many organisations to only evaluate what they can or have achieved, based it was experience. On the contrary, they fail to determine what they actually need to accurately evaluate their future implementation (that may be totally different from past plans). They must understand that the main purpose of data planning is so that the data needed for input purposes, activities, outputs and organisational outcomes are readily available, transparent and easily accessed by parties who need access to it. In this regard, although their past experiences are valuable, they must also explore the possibility of doing something innovative to remain relevant and sustainable.

- (c) **Execution** involves timely channelling of resources and the best structuring of emolument/salary or incentives to drive the actions needed to meet the organisation’s objectives. It takes place through the organisation’s operational model.

The International Integrated Reporting Council (IIRC) defines a [business] model as “The organization’s chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term.”

For the purpose of this GTU-s, although some Institutions-*i* are business oriented entities whereas other Institutions-*i* are non-business oriented entities, the term “business model” is used loosely for all Institutions-*i* to refer to the system chosen and used for inputs, core and non-core activities [either business or non-business], outputs and outcomes that aims to create value over the short, medium and long term.

The business model is interconnected with both the external environment and the organisation's governance system. Consequently, political, economic, social and technological factors require careful strategic consideration by the said organisation. During execution, competitive forces are often at play, presenting contexts that are laden with risks, as well as opportunities, within which when the stakeholders expect more from the Institution-*i*, then they might have to fulfil or surpass that expectation.

At this stage, real time results are recorded and checked against set targets; and reports would be published for the relevant decision makers.

To a large extent, the business model is highly relevant to the operational model of Institutions-*i*, in the context of having a system of inputs, core and non-core activities, outputs and outcomes that aim to create value for the public. The interconnection between the external environment and the internal governance system necessitates further initiatives to augment good governance in every Institution-*i*.

- (d) **Reviewing** and refining involves analysing the results and forecasts of every initiative and process while the plans are being put into action. This brings in the need for a feedback loop to continuously refine the plans that propel the organisation's strategic objectives. It also serves to inform the decision makers on the level of efficiency, effectiveness and efficacy of each initiative and process, hence enabling decisions to be made to improve the planning process in the future.

This at times requires minor alterations to the portfolio of initiatives and processes; the said organisation can resume the implementation of these initiatives and processes (after the refining process).

Nonetheless, there will be times when the reviewing process unveils themes that demand for more fundamental change; including discontinuing certain activities, rebalancing or reformulating how activities should be prioritised, or perhaps provide a glimpse on the execution of new initiatives. It might also drive the need to review every plan, and even have a fundamental rethink about strategies. Feedback on performance management enables the organisation to learn from the results obtained, thus facilitating other enhancements in the future.

63. In summary, this GTU-s support high level performance management at every level of human capital and calls for continuous improvement.

vi. Implementation of Best Practices

To date, there are no specific guidelines that guide Institutions-*i* to become high performing organisations. This GTU-s fills that gap by providing a general guideline for Institutions-*i* to refer to, for the purpose of learning various governance best practices.

64. The four Thrusts and five Principles outlined in this GTU-s can be used across various organisational activities. For simplicity and practicality, this Part VI focuses on six main activities involving the management of institutions and public interest funds⁵ with honesty and integrity. The main activities are shown in Diagram 10.



Diagram 10: *Shariah-Based* Governance Best Practices

65. Execution in the form of good governance practices (GGP), as elucidated, is as follows:
- (a) Board Effectiveness;
 - (b) Management and Control of Resources;
 - (c) Internal Controls;

⁵ The term “public interest funds” in the context of GTU-s is distinguished from “public funds”. Public interest funds refer to funds that are sourced from private sector but embedded with public interest – for instance, the savings of depositors in Tabung Haji; and the amal jariah contributions managed by YaPEIM. On the other hand, “public funds” refer to funds that are sourced from the Government.

- (d) Procurement Governance;
- (e) Regulatory Compliance and Adherence; and
- (f) Risk Management.

A. Board Effectiveness

66. An effective Board in an Institution-*i* should not necessarily be a comfortable place for the Board members. This is underscored by the Financial Reporting Committee:

“An effective board should not necessarily be a comfortable place. Challenge, as well as teamwork, is an essential feature. Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards 'group think'.”

Source: FRC, Guidance on Board Effectiveness, March 2011.

67. It is the role of the Board of Institutions-*i* to lead their organisations within a prudent and effective control framework. An effective Board needs to enact, ascertain, enactive a common vision with regard to the organisation's goals, culture, values and the code of conduct to be achieved within the organisation.
68. An effective Board at an Institution-*i* must always be sensitive and mindful or their role as the custodian of public resources. Specifically, the Board and senior management of Institutions-*i* are accountable to:
- (a) provide direction to the management team (*al-Hikmah*);
 - (b) demonstrate ethical leadership, personify *al-'Adl wa al-Ihsan, al-Amanah* and is worthy of trust;
 - (c) exhibit (and encourage everyone in the organisation) conduct that are in harmony with the culture and values that have been determined for the organisation;
 - (d) create a performance culture that spurs value creation without exposing the organisation to excessive risks leading to value impairment;
 - (e) make well-informed and high quality decisions, based on a clear line of sight into operations or business (*al-Syura*);
 - (f) develop the proper framework to assist Board members to fulfil their statutory obligations under the related laws and regulatory framework (*al-Hikmah*);

- (g) ensure the organisation's objectives always take precedence over other matters;
- (h) contemplate on GGP and accept any feedback on its effectiveness;
- (i) demonstrate the highest standard of integrity and set clear expectations on the organisation's culture, values and conduct, as well as the style and tone of Board discussions, to be in conformance with the *Tauhid*.

Effective Decision Making

- 69. The process of making well-informed and high quality decisions is a critical need for an effective Board. It does not happen by chance or unintentionally.
- 70. The Board is reminded on the application of the principle of *al-Syura*; such that they can mitigate the risk of making the wrong decisions by spending time and energy in designing robust policies and processes in decision making. For example through brainstorming sessions conducted by committees formed by the Board and comprise independent members who are of high expertise, trustworthy and full of integrity.

Board Composition and Succession Planning

- 71. In the context of Institutions-*i*, the Board members are appointed by the Government. In this regard, the appointees must be those who are duly qualified and capable of making positive contributions. There needs to be a suitable and right combination of skills, experience, knowledge and independence among the Board members to help the Board in making good decisions and maximising the chances for long term organisational success. Here, the application of the principle of *al-Hikmah* must be considered to help Institutions-*i* achieve their objectives.

Evaluating Board Performance

- 72. The Board needs to continuously monitor and improve their performance. This can be achieved through a Board performance evaluation process that provides a feedback mechanism based on *al-Syura* to increase Board effectiveness, maximising their strengths and uncovering other aspects that need to be developed. The Board's *muhatabah* process must be formulated to be objective, holistic and performance-based.

Audit, Risks and Compensation Scheme

73. Although the Board is authorised to form committees to assist them in deliberating matters such as relating to audit, risks and remuneration scheme, the Board is nevertheless ultimately responsible for those matters. In this regard, the Chairman must ensure ample time is given to the Board to deliberate on those issues thoroughly and effectively.
74. Every Board member must be well versed with the provisions of GGP and all related guidelines⁶, as well as all requirements concerning the Board and the Institution-*i*. Hence, the application of the principle of ***al-Syaja'ah*** is very important to provide an avenue to all staff members to raise any issue, challenges or incidents within secure and open setting, for the sake of maintaining public trust and safeguarding the institution's reputation.

Relationship with Stakeholders

75. **Transparent** communication provides an opportunity for Institutions-*i* to increase the quality of their interactions and dialogues with stakeholders, to enhance enhancing their level of trust and confidence in the institution. One highly important tool to communicate with the stakeholders is the annual report. It is used to channel and disclose information that have been carefully deliberated vis-a-vis the organisation's GGP.
76. Consequently, every information disclosure process, whether annually or at periodical intervals would motivate the Board to meticulously assess the quality of GGP in their Institution-*i*. And subsequently, decide on the action plans to improve the organisational structure, process and system.

B. Management and Control of Resources

77. **Shariah**-based GGP emphasizes on the principle of ***al-Amanah***, whereby an organisation must be proactive in monitoring performance⁷ based on

⁶ For instance, if the Institution-*i* is a company, then the Board of that institution should be well versed in the Malaysian Code on Corporate Governance.

⁷ This includes project management, human capital, activities, processes, total [sales] and revenue (for business oriented entities, if relevant), quantity of resources, operational cost and expenditure, assets, liabilities and cash flow, as well as other non-financial resources.

the objectives that have been determined at all levels of the Institution-*i*. Hence, the Institution-*i* must ensure efficient and effective control and management of resources.

78. The function of the organisation's budget is to guide the way resources are being distributed, in order to determine the trustworthiness of the organisation.
79. In order to ensure the preservation of *Maslahah*, as outlined under *Maqasid Syariah*, the budgetary process should be based on ***al-'Adl wa al-Ihsan*** and ***al-Syura***, in accordance with rank of priorities.
80. All steps and targets for all core and non-core activities should be communicated to all levels of the Institution-*i*, so that all staff members comprehend that each success by individual who practices the princip of ***al-Amanah*** contribute to the overall success of the organisation.
81. Matters of strategic importance must be made known to and understood by all staff members, such that they would utilise all available resources efficiently. This may help to avoid any dispute on the utilization of the resources.
82. To ensure that all results that are targeted remain competitive and continuously improve, the projections for inputs, outputs and outcomes as well as benchmarks should be accurately analysed. The performance of the Institution-*i* across the value chain should be controlled through appropriate steps and targets.
83. The financial controller needs to provide supporting evidence to back up projections about expected results, to articulate the assumptions on which these projections are made, and provide a detailed explanation on the variances between the actuals versus budgets.

C. Procurement Governance

84. Procurement Governance serves to determine the levels of accountability, communication, standards and major practices, as well as the responsibilities of Institutions-*i* in relation to public procurement. In Malaysia, the framework for procurement governance and its detailed processes are supervised by the Ministry of Finance via 1 Pekeliling Perbendaharaan (1PP) (further information can be downloaded from <http://1pp.treasury.gov.my>.)
85. The principles outlined in the “1PP” are indeed consistent and in line with this GTU-s. The following principles are clearly underscored in the four elements mentioned in the relevant official Government documents (reference: Source of Authority, Principle and the Government’s Procurement Policy):
- (a) ***al-Amanah*** – every expense paid for by Institutions-*i* is for the sake of public interest, which refers to the attainment of something good and beneficial, in accordance with the *Maqasid Syariah*. Therefore, it must be performed responsibly and with clear accountability;
 - (b) ***al-’Adl wa al-Ihsan*** – procurement process based on open and competitive bidding shall be preferred, so that the process is fair to all qualified bidders. The bidding process must be executed objectively and transparently without undue preference or bias, in compliance with all policies, rules and methods;
 - (c) ***al-Syura*** – all policies, rules, practices and processes of public procurement must be managed transparently. The general public has a right to receive accurate information on how resources are managed; and
 - (d) ***Al-Hikmah*** – obligation to ensure excellence or attainment of the most optimum returns for every “money” spent. Institutions-*i* and their staff must never ever tolerate any form of extravagance, wastage or abuse of public funds or all other public resources.

D. Internal Controls

86. The internal controls of every Institution-*i* need to be fully documented to cover all aspects of policies, systems, process and procedures for risk management all the way to the generation and preservation of value. It needs to encapsulate the implementation of the internal controls framework efficiently and effectively, as well as the reporting on and supervision of the framework.

Supervision Develops Trust in the System, Process and Human Capital

87. All policies and control procedures must be published and shared with everyone serving the Institution-*i*, so that they can utilise it within the purview of their duties and responsibilities.
88. The findings of regular audits on the internal control system must be shared with the relevant parties within the hierarchy of the Institution-*i*. This would enable the decision making process to be enhanced and more effective actions to be executed.
89. Any information about incidents of failure of the organisation's internal control system (such as the occurrence of error or fraud) must be immediately reported to the relevant parties within the organisation's hierarchy. This would enable the Institution-*i* to investigate, rectify and/or prevent it conscientiously and immediately.
90. The frequency of monitoring and reporting over the internal control system and process must match the number of activities of the Institution-*i*, as well as the level of risk exposure experienced by the organisation. The level of detail at which the operational performance and position of the Institution-*i* should be reported⁸ must match the duties and responsibilities of the appropriate employees.

Priority Adjustment

91. In line with the principle of the preservation of ***Maslahah***, the planning of execution methods, distribution of resources to execute the plan and the reporting activities for verification and feedback must be adjusted to ensure the creation of value with the most optimum benefit to the organisation. The adjustment would also help the organisation in making the right decisions while taking into account the priority of understanding and managing risk. Hence, the control mechanism should be frequently examined; the frequency of which needs to be adjusted in accordance with the [business] or operational model.
92. Physical and financial processes that are attached with the high or most risks must be identified and evaluated. Subsequently, the responsibility

⁸ Including trend analysis, comparisons, variances, etc. as applicable.

over financial control must be assigned according to the level of each staff member, taking into account the organisational structure and hierarchy. Generally, it is the Board's responsibility to ensure the existence of reasonable physical and financial control mechanisms. On the other hand, the senior management is responsible to ensure the control mechanisms are functioning effectively, and it is the responsibility of the staff members of all Institutions-*i* to regard to their respective operationalise the control mechanisms with individual duties and responsibilities, in accordance with the principle of ***al-Amanah***.

93. The level of readiness and effectiveness of the control mechanisms should be audited regularly to ensure that they remain relevant and in line with the organisation's operational requirements.

E. Regulatory Adherence and Compliance

94. Generally, although Institutions-*i* are not subjected to the regulatory and legal responsibilities that are enforced by specific supervisory bodies, every Institution-*i* nonetheless has a moral obligation to comply with current general regulatories. The Institutions-*i*, which act as credible public institution, must uphold its organisation's reputation. Nevertheless, as institutions of public interest, Institutions-*i* must be proactive in avoiding fines/penalties and other enforcement actions (where applicable) and protecting the organisation's reputation and value, whether as a credible public institution or as a good corporate citizen.

Managing Stakeholders Proactively

95. Managing their stakeholder proactively based on ***al-Syura***, will enable the institution-*i* to build good rapport and instill trust from the general public (intended customers). At the same time it will increase confidence from supervisory bodies and other relevant government agencies.
96. For the purpose of epitomising the principle of ***al-Hikmah*** in the governance of Institutions-*i*, regulatory compliance should be introduced, maintained and improved consistency through regular training and education for those serving Institutions-*i*. Wherever appropriate, the work culture should also be transformed systematically.



97. Results of regulatory compliance must be discussed and reviewed in accordance with *al-Syura* and *al-Hikmah*, so that steps for rectifying and improving every aspect of compliance can be executed quickly and accurately.
98. Institutions-*i* need to also consider the use of new approaches of compliance, by taking into account aspects such as excellent service delivery system (for public entities) or optimisation of business profits (for private entities).⁹
99. Lessons learnt from incidents of non-compliance whether within the Institutions-*i* itself or through the experience of other Institutions-*i* should be documented for the purpose of enhancing policies and procedures as well as preventing similar incidents from recurring .
100. All statements and documents required under the relevant laws and regulations must be prepared and filed with completeness, and on a timely basis.
101. The legal and regulatory landscape must be regularly and periodically monitored to keep an update of latest developments and understand its potential impact on the organisation.
102. The aspired minimum or targeted threshold or compliance level must be determined and communicated to all staff members of Institutions-*i*.
103. Institutions-*i* must identify the gaps between the results of self-audits and the minimum or targeted compliance threshold. Risk mitigation steps must be carried out to bridge the compliance gaps, including determining crucial compliance steps, the timeline for full compliance and the assignment of accountability at the individual or organisational levels.

⁹ For instance, Institutions-*i* can leverage on technology to save time and increase transparency when dealing with supervisory bodies and internal/external auditors, upon having conducted a cost-benefit analysis on the initiative.

104. In consonance with the principle of *al-Amanah*, when preparing reports according to certain regulations and other general requirements, Institutions-*i* must be transparent about their compliance strengths and weaknesses. The internal processes of Institutions-*i* must be implemented and updated strategically to instil confidence among the stakeholders that all regulations, where relevant, are fully complied with.
105. Every compliance audit findings must be documented. The audit must involve an audit of the control mechanisms over core processes, governance system and the infrastructure available to the organisation, taking into account the overall resources, social impact, ethics and code of conduct.
106. New standards, if any, should be readily accepted and Institutions-*i* are encouraged to pioneer efforts in interpreting, executing and reporting compliance that can be used as new benchmarks or exemplary models.

F. Risk Management

107. Risk management policies must be formulated and understood by everyone serving the Institutions-*i*. This can be done through training and communication from the management.
108. The Board team of Institutions-*i* should establish a proactive risk management culture. In this step process enable all staff members to identify internal and external uncertainties and analyse risks that can be detrimental to the organisation's operations and reputation. Recommend appropriate responsive plans to address those uncertainties. This is in line with the principles of *al-'Adl wa al-Ihsan*, *al-Syura* and *al-Hikmah*, as a robust management system is the result of the collaboration of employees from different departments, open and honest discussions, strategic and foresight.
109. The elements of risks and opportunities, such as 'PESTEL' (Political, Economic, Social, Technological, Environmental & Legal) or 'SWOT' (Strengths, Weaknesses, Opportunities, Threats) analyses should be discussed at relevant levels at Institutions-*i* (be it strategic, tactical or operational) and documented for easy reference.

110. The leadership team and in fact, everyone in Institutions-*i* needs to analyse the 'level' of a certain risk or uncertainty to the organisation; based on its probability, and quantitative and qualitative impacts. Subsequently, the necessary control element needs to be identified to formulate an action plan to mitigate the risk.
111. A monitoring plan that is structured and continuous must be executed to ensure the relevance and comprehensiveness of risk management; including quarterly reports that are presented to the Board of the Institution-*i*, to be deliberated and acted upon. Follow-up actions must be carefully monitored, so as to ensure the risk is mitigated effectively. To safeguard the credibility of the Institution-*i*, this whole process requires a high level of commitment and specialised expertise.

Information Must be Relevant and Transparent

112. In the context of risk management, the following information must be understood and documented thoroughly:
- (a) the nature, level and impact of the risks faced by the organisation;
 - (b) the organisation's capacity and capability to undertake those risks; and
 - (c) test results on the suitability and effectiveness of the organisation's policies, processes and procedures, including the audit trails for the relevant financial and non-financial transactions.¹⁰

¹⁰ Examples of non-financial assets include inventory, plant and machinery, work in progress, goods in transit, fixtures and fittings, buildings and the like.

vii. Conclusion

The General Guidelines of *Shariah*-Based Governance (GTU-s) comprises the thrusts, main principles and general guidance on the implementation of *Shariah*-based governance, in which it can drive Institutions-*i* to enhance the existing governance system at their respective institutions. The effectiveness of this GTU-s depends on the collaboration of all parties, including the Board, senior management, officers and other stakeholders.

UPDATES AND RELATED MATTERS

This is the first edition of the GTU-s for Institutions-*i* on *shariah*-based governance. This project remains open to a relationship which is interactive, iterative with mutual feedbacks between the Prime Minister's Department (Islamic Affairs) and other parties, including public sector agencies, academic and research institutions, supervisory bodies, practitioner firms and the general public.

If you have any form of suggestions and updates or are interested in obtaining further information on the implementation of GTU-s in your organisation, please contact:

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ACRONYMS AND GLOSSARY

Board	<p>according to its context refers to:</p> <ul style="list-style-type: none"> (a) Board of Directors (if the Institution-<i>i</i> is a corporation, statutory body or private company); (b) Board of Trustees (if the Institution-<i>i</i> is a foundation or trust entity); (c) Any board of officers/senior management (if the Institution-<i>i</i> is a Government department or agency); or (d) Any board, council or committee responsible for its governance equivalent or similar to the above in the respective Institution-<i>i</i>.
[Business] model	Used loosely for every Institution- <i>i</i> to refer to the organization's chosen system of inputs, core and non-core activities [whether business or non-business, where relevant], outputs and outcomes that aims to create value over the short, medium and long term.
GGP	Good Governance Practices
GTU-s	General Guidelines on <i>Shariah</i> -based Governance
Institution- <i>i</i>	The Federal Government's Islamic institutions under the purview of the Prime Minister's Department
Staff members of Institutions- <i>i</i>	Refers to the Board members, leaders, senior management and all other employees at every level of the Institution- <i>i</i> .
VUCA	Refers to the various world scenarios, typified by their volatility, uncertainty, complexity and ambiguity.

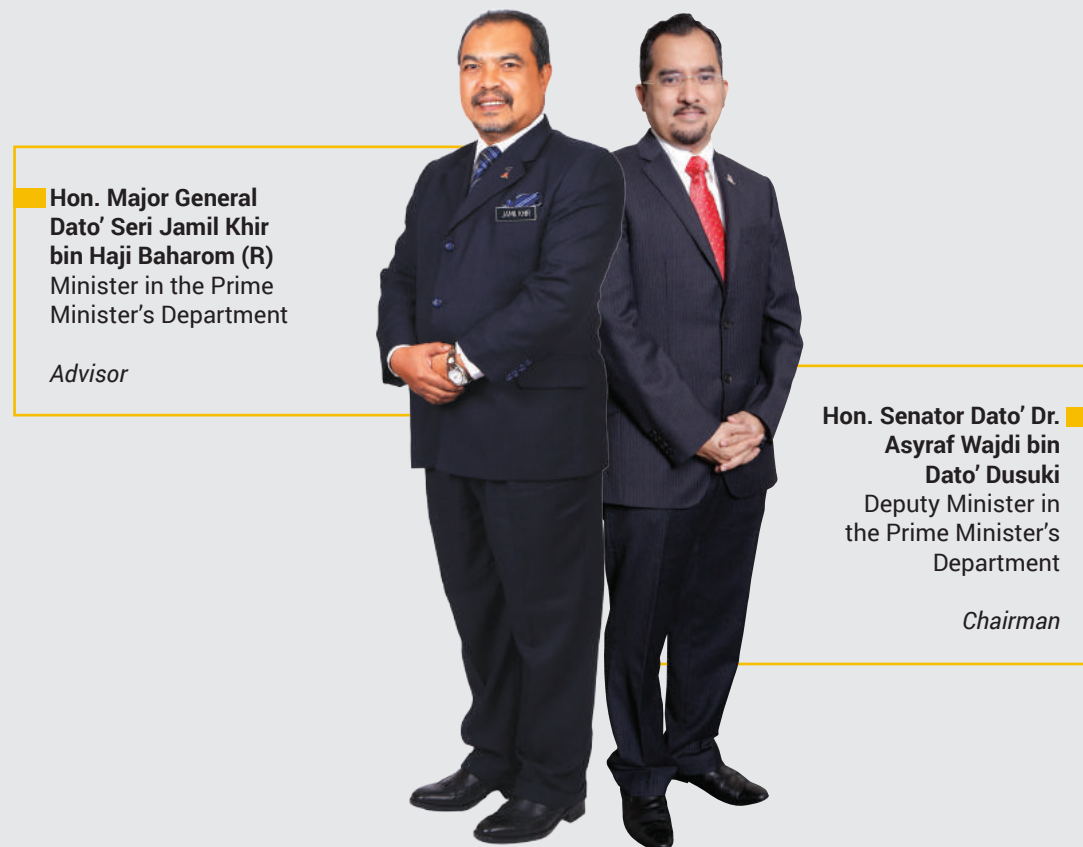
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