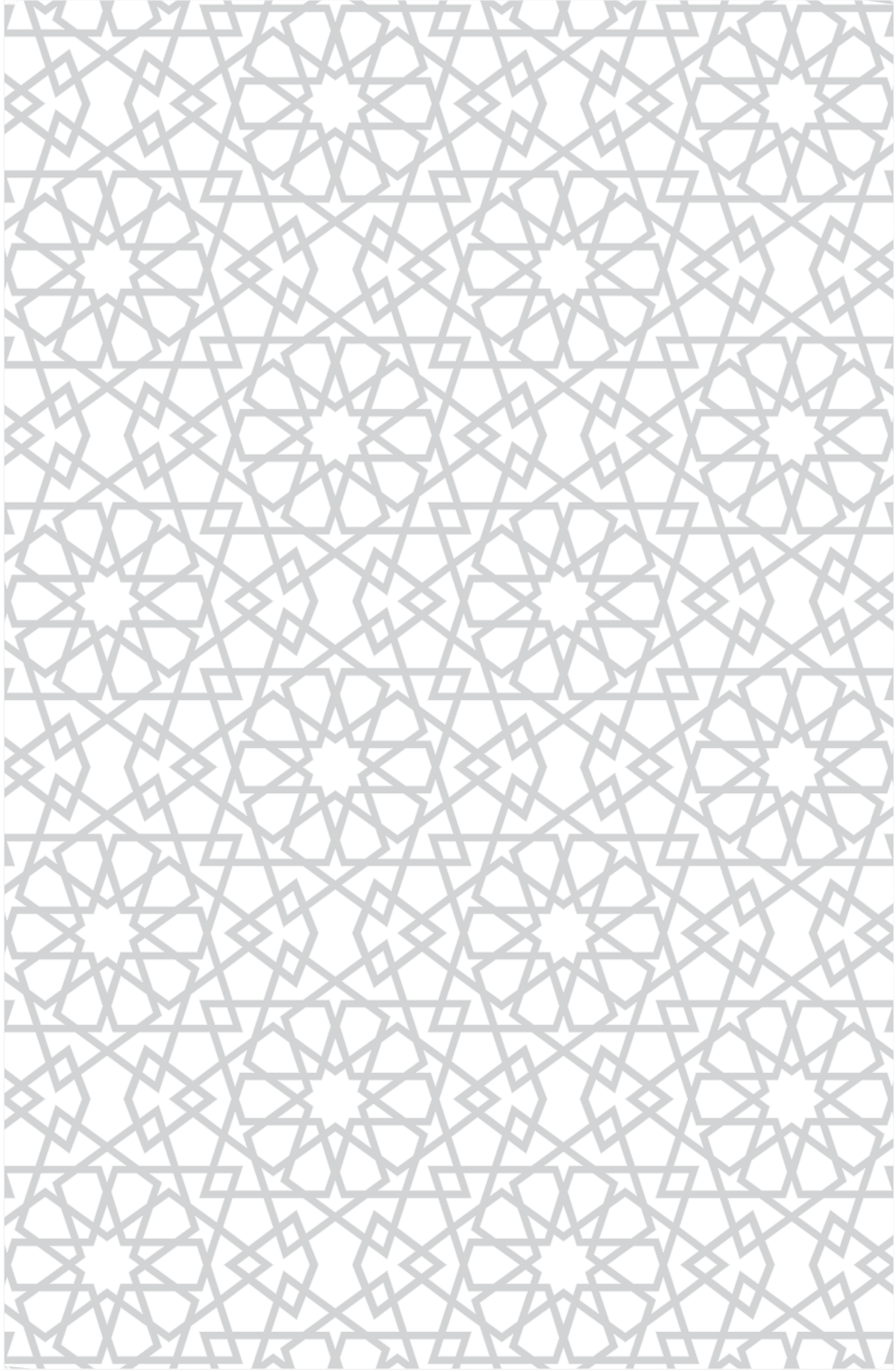


Introduction



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The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), formerly known as Financial Accounting Organization for Islamic Banks and Financial Institutions, was established in accordance with the Agreement of Association which was signed by Islamic financial institutions on 1 Safar 1410 A.H., corresponding to 26 February 1990 A.D., in Algiers. AAOIFI was registered on 11 Ramadan 1411 A.H., corresponding to 27 March 1991 A.D., in the Kingdom of Bahrain as an international autonomous non-profit making corporate body.

Objectives of AAOIFI are:

1. To develop accounting and auditing thoughts relevant to Islamic financial institutions;
2. To disseminate accounting and auditing thoughts relevant to Islamic financial institutions and their applications through training, seminars, publication of periodical newsletters, carrying out and commissioning of research and other means;
3. To prepare, promulgate and interpret accounting and auditing standards for Islamic financial institutions; and
4. To review and amend accounting and auditing standards for Islamic financial institutions.

AAOIFI carries out these objectives in accordance with the precepts of Islamic Shari'ah which represents a comprehensive system for all aspects of life, in conformity with the environment in which Islamic financial institutions have developed. This activity is intended both to enhance the confidence of users of the financial statements of Islamic financial institutions in the information that is produced about these institutions, and to encourage these users to invest or deposit their funds in Islamic financial institutions and to use their services.

Before the establishment of AAOIFI, intensive efforts were made on both administrative and technical levels beginning with the working paper that

was presented by the Islamic Development Bank during the annual meeting of its board of governors in Istanbul in March 1987. Thereafter, a number of committees were formed to examine the appropriate methods of preparing accounting standards for Islamic financial institutions. These committees produced several research studies and reports.⁽¹⁾

Since its establishment in 1411 A.H., corresponding to 1991 A.D. and until 1415 A.H., corresponding to 1995 A.D., the organizational structure of AAOIFI comprised the Supervisory Committee which consisted of seventeen members, the Financial Accounting Standards Board which consisted of twenty one members, an Executive Committee appointed from within the members of the Standards Board, and a Shari'ah Committee of four members.

After four years of work, the Supervisory Committee decided to form a review committee to look into the statute of AAOIFI and its organizational structure. The amendments that were later introduced in the statute, which were approved by the Supervisory Committee, included the renaming of the Organization and the changing of its organizational structure. The revised structure consisted of a General Assembly, a Board of Trustees (which replaced the supervisory committee), an Accounting and Auditing Standards Board (which replaced the former board that was confined to accounting standards only), an Executive Committee, a Shari'ah Board and a General Secretariat to be headed by a Secretary-General.

The amendment of the statute also included changing the method of financing AAOIFI. In the past, AAOIFI was financed by contributions paid by the founding members (Islamic Development Bank, Dar Al-Maal Al-Islami Group, Al Rajhi Banking & Investment Corporation, Dallah Al Baraka and Kuwait Finance House). The revised statute calls for the establishment of a Waqf (endowment) and charity fund to be financed from membership fee that is paid only once by institutions joining AAOIFI. The proceeds from this fund, the annual subscription fees, grants, donations, bequests and others are the sources from which AAOIFI funds its activities.

(1) These studies and reports are compiled in five volumes and were lodged in the library of the Islamic Research and Training Institute of the Islamic Development Bank in Jeddah - Saudi Arabia under serial no. (332/121021).

The amendment of the statute also included changing the membership of AAOIFI. It consisted of:

- Founding members,
- Non-founding members,
- Observing members.

Attached is an updated list of AAOIFI's members.

In 1419 A.H., corresponding to 1998 A.D., additional amendments were made in AAOIFI's statute. These amendments included, among other things, the broadening of AAOIFI's objectives. Article (4) of the amended statute states that AAOIFI shall:

1. Develop the accounting, auditing and banking practices thought relating to the activities of Islamic financial institutions.
2. Disseminate the accounting and auditing thought relating to the activities of Islamic financial institutions and their applications through training, seminars, publication of periodical newsletters, preparation of research and other means.
3. Prepare, promulgate and interpret accounting and auditing standards for Islamic financial institutions in order to harmonize the accounting practices adopted by these institutions in the preparation of their financial statements, as well as to harmonize the auditing procedures adopted in auditing the financial statements prepared by Islamic financial institutions.
4. Review and amend the accounting and auditing standards for Islamic financial institutions to cope with developments in the accounting and auditing thought and practices.
5. Prepare, issue, review and adjust the statements and guidelines on the banking, investment and insurance practices of the Islamic financial institutions.
6. Approach the concerned regulatory bodies, Islamic financial institutions, other financial institutions that offer Islamic financial services, and accounting and auditing firms in order to implement the accounting and auditing standards, as well as the statements and guidelines on the banking, investment and insurance practices of Islamic financial institutions that are published by AAOIFI.

The amendments also included the renaming of non-founding members to be “Associate Members”. Article (3) of the amended statute states that associate members shall comprise the following:

1. Islamic financial institutions that comply with Islamic Shari’ah rules and principles in all their transactions.
2. Regulatory and supervisory authorities that supervise Islamic financial institutions. Regulatory and supervisory authorities include central banks, monetary agencies and other similar authorities.
3. Islamic Fiqh academies and authorities that have corporate entity.

The Observing Members shall comprise the following:

1. Organizations and associations responsible for regulating the accounting and auditing profession and/or those responsible for preparing accounting and auditing standards.
2. Practicing certified accounting and auditing firms that have interest in the accounting and auditing practices of Islamic financial institutions.
3. Financial institutions engaged in financial activities of Islamic institutions.
4. Users of financial statements of Islamic financial institutions both individual and corporate.

The conditions of membership specified in Article (8) of the amended statute stipulate that every member should pay the prescribed membership fee and the annual subscription fee. A member should also comply with AAOIFI’s statute and bylaws.

The amendment of the statute also included the formation of a Shari’ah Board instead of Shari’ah Committee. Details of the Shari’ah Board are shown below in the organizational structure.

In 1425 A.H., corresponding to 2004 A.D., additional amendments were made in AAOIFI’s statute. These amendments included expanding the membership category to include supporting members, which comprise users of financial statements of Islamic financial institutions both individuals and corporate. It also comprises all the local and international financial institutions that already have or intend to have relations with Islamic financial institutions’ products.

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The changes also include AAOIFI ability to offer a testing and certification programme in the areas of accounting, auditing, financial analysis, and Islamic banking, conducted either by AAOIFI or in cooperation with other parties.