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Sharia Audit Challenges in Malaysian Islamic Financial Institutions

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Abstract. *Sharia Auditing in Islamic Financial Institutions (IFIs) poses several challenges, for example, lack of standardization, harmonization in Sharia standards, and incompetent Sharia auditors. Addressing these challenges is critical to ensuring the sustainability and growth of IFIs in Malaysia. This study aims to discuss the problems and challenges of Sharia auditing in IFIs. This study used a qualitative method by distributing questionnaires to 40 practitioners from several IFIs engaged in Islamic audit services through a purposive sampling procedure. The research findings show that the awareness of the Sharia audit is satisfactory in the absence of a separate audit report. In addition, Sharia audit should be integrated into college accounting; comprehensive Sharia audit framework and standards; regulatory/professional bodies; and professional certification in Sharia audit.*

Keywords: *Sharia Audit, Sharia Audit Challenges, Islamic Financial Institutions, Malaysia*

Abstrak. *Audit Syariah di Lembaga Keuangan Islam (LKI) menimbulkan beberapa tantangan, misalnya kurangnya standarisasi, harmonisasi dalam standar Syariah dan auditor Syariah yang tidak kompeten. Mengatasi tantangan ini sangat penting untuk memastikan keberlanjutan dan pertumbuhan LKI di Malaysia. Penelitian ini bertujuan untuk membahas masalah dan tantangan audit syariah di IFI. Penelitian ini menggunakan metode kualitatif dengan menyebar kuesioner kepada 40 praktisi dari beberapa LKI yang bergerak di bidang jasa audit Syariah melalui prosedur purposive sampling. Temuan penelitian menunjukkan bahwa kesadaran audit Syariah cukup memuaskan dengan tidak adanya laporan audit yang terpisah. Selain itu, audit Syariah harus diintegrasikan ke dalam akuntansi perguruan tinggi; kerangka dan standar audit syariah yang komprehensif; badan pengatur/profesional; dan sertifikasi profesi dalam audit Syariah.*

Kata kunci: *Audit Syariah, Tantangan Audit Syariah, Lembaga Keuangan Syariah, Malaysia*

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Introduction

The ascent of IFIs has taken an exceptional measurement for development and improvement for hardly any decades. The market's growth elements coordinate speculation toward the colossal development openings in the promising Islamic segments. However, Islamic finances have increased tremendously since its emergence in the 1970s. In December 2019, global Islamic financial and managed assets reached $2.88 trillion, with an annual growth of 14%. In over 80 countries worldwide, there are over 1500 IFIs (IFDI, 2020). As for Malaysia, Islamic banking assets have reached USD 254 billion, with total deposits of Islamic banks now accounting for 38.0% of total bank sector deposits in December (BNM, 2019). This exceptional improvement in the Islamic financial industry was activated by the solid demand for *Sharia* banking administrations to ensure all the exchanges utilized by Muslims and non-Muslims comply with *Sharia*. Subsequently, a legitimate check and equalization framework in the industry is essential to shield the tremendous amount of assets under its administration.

Hassan (2019) highlighted issues concerning the general competence of each Member of the *Sharia* Board, where basic banking and financial skills seem to be missing. The professional members of the *Sharia* Board who lack adequate expertise could adversely affect *Sharia* governance and impede public trust. The competencies of members of the *Sharia Board* are, thus, essential in ensuring a successful IFIs *Sharia* governance process. It was also illustrated that the members of the *Sharia Boards should* strengthen their capacity and willingness to ensure the quality of *Sharia* (Omar, 2019). Similarly, a stand-alone *Sharia* audit framework must be established to cover the growing number of IFIs in Malaysia. It was further emphasized that, except for *Sharia* knowledge, relevant qualifications are needed for this function (Isa et al., 2020). Salleh et al. (2019) stated that *Sharia* audit practices have a performance gap that leads to low expectations and inadequate performance. He is of the view that the improvement of *Sharia* auditors' efficiency performance gap in the *Sharia* audit practices depends on tackling the issue of standards and low results. He contended that the non-existent standards caused insufficient legal and professional complications in *Sharia* Auditors' roles and responsibilities. Furthermore, the development of the *Sharia* audit in Malaysia is still far from anticipated. The problem is not only the obstacle of Islamic banking but also, more importantly, that the regulator cannot create rules that allow the administration of Islamic banks to perform the proper *Sharia* audit.

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Nevertheless, some Islamic banks initially developed an internal *Sharia.* Division to perform *Sharia* audits to improve *Sharia* audit quality (Muhammad, 2018). There is a need to carry out an effective internal *Sharia* audit, which urges the relevant regulatory authorities to establish solid and sound guidelines and frameworks to ensure that the IFIs' audit is executed appropriately. A practical audit function is crucial to support the tracking and improving credibility and transparency of the Islamic financial sector by the regulators (Laili et al., 2019). The following literature depicts that *Sharia* audit has not been taken seriously in Malaysian IFIs in terms of auditors' competency independence and has not had an independent *Sharia* audit framework. Further, *Sharia* audit transparency is questionable due to the absence of external audit procedures and conflict of interest in compensating auditors through IFIs. However, in the past, the state would have paid them.

In conclusion, conducting *Sharia* audits create several difficulties for IFIs, which can impede their capacity to operate effectively and sustainably. The lack of standardization and harmonization in *Sharia* standards and practices is one of the highest obstacles for IFIs in Malaysia conducting *Sharia* audits. *Sharia* compliance requirements may vary based on the interpretation of *Sharia* and its underlying principles, leading to inconsistencies and discrepancies in *Sharia* audits. This can make it more challenging for IFIs to ensure compliance and increase the risk of legal and reputational repercussions. A shortage of qualified *Sharia* auditors is an additional obstacle in *Sharia* audits, which can result in delays and inconsistencies. This can also increase the cost of *Sharia* audits for IFIs, which can have a negative effect on their financial performance.

Sharia audit necessitates an in-depth knowledge of *Sharia* and its principles, as well as financial management practices, making it a highly specialized field. In addition, the lack of integration between *Sharia* auditors and the internal audit functions of IFIs can result in redundant efforts and inefficiencies. Addressing these challenges is necessary to ensure the sustainability and growth of IFIs in Malaysia and preserve their reputations as credible and trustworthy financial institutions within the Islamic finance industry. Interestingly BNM *Sharia* Governance Framework (SGF 2019) amendment may help to bridge the existing gap in *Sharia* auditing. This study aims to discuss *Sharia* audit issues and challenges faced by IFIs, such as the absence of a *Sharia* audit framework, incompetency, and independency of *Sharia* auditors.

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Literature Review

Sharia Audit Challenges

Sharia audit in IFIs has been the subject of scholarly discussion for many years. *Sharia* audit is the process of examining the conformity of IFIs with *Sharia* principles, which is necessary for the growth and development of Islamic finance. The role of *Sharia* audit in ensuring compliance with *Sharia* principles is a central issue in the academic debate on *Sharia* audit within IFIs. Some scholars argue that the *Sharia* audit is an indispensable instrument for ensuring that IFIs adhere to *Sharia* principles. They believe that the *Sharia* audit helps prevent *Sharia* non-compliance risks, which could potentially harm the reputation of IFIs and the industry as a whole. Some scholars, on the other hand, argue that the effectiveness of *Sharia* audits in ensuring compliance with *Sharia* principles is limited. They say that the *Sharia* auditing process can be subjective because different *Sharia* scholars may interpret *Sharia p*rinciples differently. In addition, they contend that the current *Sharia* audit framework is not standardized and that there is a lack of uniformity in the *Sharia* audit process among IFIs. In the academic debate on *Sharia* audit in IFIs, the independence of *Sharia* auditors is an additional topic of discussion. Some scholars argue that *Sharia* auditors should be independent of the management of IFIs to ensure objectivity and prevent conflicts of interest. They believe that independent *Sharia* auditors are better able to identify potential *Sharia* non-compliance risks and provide more reliable opinions on the *Sharia* compliance of IFIs. Other scholars, however, argue that the independency of *Sharia* auditors may not be practical, as it could result in a shortage of qualified *Sharia* auditors and make *Sharia* audits excessively expensive. They propose that the effectiveness of *Sharia* audit can be improved through the creation of *Sharia* audit standards, which can help to standardize the *Sharia* audit process and ensure the quality of *Sharia* audit opinions. In conclusion, the academic discussion on *Sharia* audit in IFIs continues. However, that adherence to *Sharia* principles in *Sharia* audit is an indispensable tool for ensuring IFIs' efficacy. In addition, there are there significant obstacles that still exist in IFIs, an independent *Sharia* audit legal framework, *Sharia* auditor's independence, and competency as follows.

Absence of *Sharia* Audit Legal Framework

Given the increasing demand for Islamic banking and finance, the *Sharia* audit should be focused more on such a way to ensure IFIs, under the guidelines

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of *Sharia* maintain their accounting and financial reporting. Hence, a *Sharia* audit standardized framework is vital, as well as competent *Sharia* auditors. Furthermore, increasingly skilled and experienced *Sharia* auditors will better deal with the issues of the *Sharia* audit and help to develop sound management in the IFIs. Thus, regulators, the government, *Sharia* scholars, and the Muslim community should make an all-out effort to advance this area (Karim & Shetu, 2020). Khalid et al. (2020) emphasize that the regulators should provide a comprehensive *Sharia* audit framework for the effective governance of the internal *Sharia* audit. Similarly, Isa et al. (2020) also stress that a different *Sharia* audit framework is needed to cover the growing number of IFIs in Malaysia. It is also revealed that with *Sharia* knowledge, relevant qualifications are also required for this function. Likewise, Puad et al. (2020) highlighted that the current *Sharia* audit needs improvement, especially in scope and process. However, scholars have expressed different views on the *Sharia* audit method. Hence, the regulatory function is essential in shaping the *Sharia* audit process, as most scholars believe that the current norm available is inadequate to direct the *Sharia* auditors in their position. In addition, *Sharia* audit activities in Malaysian Islamic banks (IBs) are not appropriately conducted due to the lack of *Sharia* audit process and regulations and experts to carry out this task (Ghani & Rahman, 2015; Mohd Ali et al., 2018). IFIs are still trying to set up an effective audit process and system for *Sharia* audits. IFIs rely on a conventional audit system for audit functions that are inadequate in scope despite the requirement to achieve *Sharia* objectives (Ali & Kasim, 2019).

Ghani et al. (2015) also said Malaysian IBs apply conventional auditing frames while conducting the *Sharia* audit. However, the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) do not comply with the *Sharia* provisions. IBs added conventional bank auditing procedures tools to include *Sharia* compliance elements. In the traditional audit, an audit plan and evaluation of risk-based problems, an audit of contracts, policy, and procedure, and an analysis of the suitability of internal control are established by the Institute of Internal Auditors (IIA). Although Islamic banks need an auditing process to include a peculiar *Sharia* audit compliance for Islamic banking operations (SGF, 2010, Principle 7; IFSB, 2009, pp. 3; Hassan & Haridan, 2019).

Due to the non-availability of a particular *Sharia* audit framework, the *Sharia* audit mechanism is repeated by the conventional system. Nonetheless, takaful operators prefer to concentrate restrictively on the audit, while the *Sharia*

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audit should have a broader reach. Most of the *Takaful* operators in Malaysia are now undertaking a joint audit. The *Sharia* audit is not conducted properly, provided that the scope of the *Sharia* audit is not set as expected. As they deal primarily with organizational matters and the application of the *Sharia* is only workable when *Sharia* issues arise and when internal controls within the organizations concerned are not comprehensively handled. Another problem is the credibility of the *Sharia* auditor. To have a qualified *Sharia* auditor, the *Sharia* auditor must have *Sharia* and accounting / financial expertise. An auditor could not be aware of the risks associated with *Sharia* except with *Sharia* knowledge. In conducting an audit, the possibility of identifying and assessing non-compliant *Sharia* risk is given. Since the auditor has no audit capacity, he could not perform the function properly without an accounting, financial, and *Sharia context* (Puad et al., 2020). On the other hand, Kasim et al. (2013) explored the practitioners' perspectives on *Sharia* audit issues and challenges. The study has three significant findings: (1) Practitioners mostly adhere to conventional norms, while they equate the norms of AAOIFI. (2) *Sharia* and accounting/auditing skills are limited to auditors. (3) Self-examination practices challenge their integrity. Arwani (2018) underlined many issues regarding *Sharia* adherence audits in the IFIs. Firstly, the *Sharia* standards for audit, despite the AAOIFI's efforts, concentrate on dollars and cents rather than a more comprehensive definition of *Sharia* auditing concerning the *Sharia* goal. Secondly, regarding the 'real' owner, who can perform the audit best? The *Sharia* audit feature is delegated to a third-party auditor, *Sharia* Board, Internal *Sharia* inspection, and Audit Governance Committee based on the AAOIFI model. Thirdly, the independence of the *Sharia Board* as well as the responsibility for the issuing and approval of the product to be marketed and yet also the inspection/audit of the IFIs concerned by *Sharia*.

Nevertheless, *Takaful* operators often strive to comply with all available requirements and regulations, although the audit procedures for *Sharia* are not specified. However, there are issues with *Sharia* risk assessment. Hence, *Sharia* Auditors are required to have knowledge of *Sharia* or to have an active involvement with the *Sharia* Department and Committee. In addition, the procedure does not evaluate risks accurately and participates in the *Sharia* Committee reporting and tracking processes. Failure to consistently follow the *Sharia* conformity report may lead to inconsistencies in its decisions.

Therefore, a clear *Sharia* audit framework is mandatory to strengthen current practices and make them more coherent (Puad et al., 2020). However, it is featured

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that the development of the *Sharia* audit in Malaysia is still far from anticipated. The problem is not just the issue of Islamic banks but, more importantly, the regulator's failure to establish rules that can allow the government of Islamic banks to carry out proper *Sharia* audits. Some Islamic banks initially developed a *Sharia* internal division to conduct *Sharia* audits to increase *Sharia* audit quality (Muhammad, 2018). The necessity of an effective internal *Sharia* audit also gives the relevant regulators the urgency to establish solid and sound guidelines and frameworks for the IFIs to implement the *Sharia* audit correctly. An influential role in monitoring and effectively increasing the credibility and transparency of the Islamic financial industry is essential to help the Islamic financial sector (Laili et al., 2019). Based on this academic debate, *Sharia* audit practices have a performance gap that leads to 'deficient expectations' and 'deficient performance' It is due to the lack of *Sharia* audit standards, non-availability of standards arise from insufficient legal and professional standards on *Sharia* Auditors' roles and responsibilities. To improve *Sharia* auditors' efficiency, the 'performance gap' in *Sharia* audit practices must be tackled timely (Salleh et al., 2019).

Hence, to strengthen the structure of *Sharia* governance and *Sharia* compliance in Islamic banks, understanding the existing functions of the *Sharia* audit within the Islamic banking industry is essential (Isa et al., 2020). IFIs can easily comply with the rules and procedures that the *Sharia* target certainly accomplishes added value. Thus, IFIs must do their job concerning the *Sharia* Principle. Further, *Sharia* audit functions Should be designed and performed correctly in IFIs by a comprehensive, established, and well-functioning *Sharia* control system to ensure the preservation of *Sharia*.

***Sharia* Auditors' Incompetency**

As for the incompetency of *Sharia* auditors, Ali & Kasim (2019) stressed that only 5.9 percent of *Sharia* auditors those who are trained in both *Sharia* and accounting. Bosi & Joy (2017) are concerned that incompetent auditors in *Sharia* and accounting may have a negative effect on the growth of the Islamic Financial Industry. Furthermore, Suraya et al. (2018) explored that the majority of IFIs' *Sharia* auditors are inexperienced and do not have technical or academic qualifications in banking or *Sharia*. In the same vein, there is an incongruency of personal expertise and experiences, as most auditors are qualified either in accounting or *Sharia* (Ali & Kasim, 2019; Mohd Ali et al., 2018; Or Aishah Mohd Ali et al., 2015). Also, most of the auditors in the industry even do not have any qualification degree

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either in *Sharia* or in accounting. Further, the number of accounting backgrounds is highest than those having *Sharia* qualifications (Arwani, 2018; Shafii et al., 2014; Ahmad & Al-Aidaros, 2015).

A review by Haridan et al. (2018) highlighted issues concerning the general competence of each Member of the *Sharia* Board, where basic banking and financial skills seem to be missing. The incompetent professional members of the *Sharia Board* who lack adequate expertise may adversely affect *Sharia* governance and hinder public trust. The competencies of *Sharia Board* members are crucial in ensuring a successful IFIs *Sharia* governance process. The research suggests that members of the *Sharia Board* should strengthen their capacity and willingness to provide *Sharia* quality.

Shafii et al. (2013) recommend that the qualifications of *Sharia* auditors should be determined at the institutional level by the IFIs because their competence quality is concerned. The *Sharia* auditors must incorporate the experience of accounting and *Sharia*. The attachment of the *Sharia* audit feature to the internal audit department does not challenge the issue of independence, as *Sharia* audit results are submitted to the Islamic Bank audit committee. So, to conduct the *Sharia* audit efficiently, internal auditors may invite the *Sharia* team to take part in the internal *Sharia* audit team. Internal *Sharia* auditors with IFIs auditing experience must have the *Sharia* qualifications offered by Bank Negara Malaysia-approved institutions. Najeeb et al. (2014) are concerned that OIC countries will likely lose substantial economic benefits by continuing to import accounting credentials from the West and, thus, losing significant foreign currency reserves in payment outflows. Their study proposed that Malaysia may take the initiative to create an Association of Chartered *Sharia* Accountants and Auditors (ACSAA), an accountancy body that offers holistic *Sharia* auditing services and *Sharia* accounting and advisory services, who are professionally qualified and can serve as auditors. Members of this organization can be known worldwide for their outstanding *Sharia-compliant* accounting and audit services and could export students worldwide. There is a Malaysian High Commission. This body needs comprehensive training for its members and students in international accounting and auditing principles (such as GAAP and IFRS), Islamic accounting and the related principles (AAOIFI standards principles, IFSB guidelines, etc.), and transactional regulations pertinent to *Sharia* (*Usul Fiqh, Fiqh al-Muamalat*, Islamic contract law).

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Sharia Auditors' Independence

Isa et al. (2020) highlighted that the *Sharia* audit should enhance its independence by providing approved functional reports and autonomy, as stated in the internal audit charter. That would be critical because it would influence the extent of *Sharia* auditors' authority and independency in conducting audits and reporting on audit results. In addition, IFIs also must evaluate the need for an internal auditing unit to be established and funded as part of their employee's internal training platform. Furthermore, IFIs also resolve conflicts of interest in a professional industry; it is noticed that in the past time that the state-federal system paid auditors because it is commonly hard to criticize and reform while he is getting salaries from those institutions (Suraya et al., 2018; Bosi & Joy, 2017).

Rahman et al. (2018) identified four internal processes of *Sharia* audit: preparation, execution, reporting, and follow-up. It can be argued that the audit phase of internal *Sharia* audit activities is close to the procedure and methodology of the operational audit. The differences are ascertained as goals and types of risk. The studied Banks' internal *Sharia* auditing feature applies RBIA and COSO. Three key interrelated components of RBIA include the criticality of *Sharia* risk exposure, consistency or adequacy of controls and reducing risk in place, as well as *Sharia* risk management in minimizing possible losses. The auditors had been able to conduct a thorough and successful audit review on all three elements as more emphasis was being put on high-risk areas. A comprehensive audit that covers the end-to-end audit process is also relevant. Likewise, the *Sharia* Audit feature should look at research that goes beyond reliable authorities' written and defined requirements, such as the achievement of *Maqasid al-Sharia* (Higher *Sharia* objective). Notably, compared to operational audit practice, audit objectives and assessed risks differ. Decisions on *Sharia* would be made based on deliberations by SC, the bank's highest *Sharia* authority. This matters for SC's independence and reputation, as stakeholders will rely on their *Sharia* compliance report for decision-making.

Similarly, Haridan et al. (2018) stressed evidence that members of the *Sharia Board* with less technical expertise appear to delegate their work to the respective IFIs internal officers. Typically, internal officials will conduct the evaluation and send the findings for approval to the *Sharia* Board. Hence, it seems that the decisions of the *Sharia Board* are taken without due diligence because they relied heavily on internal officers' suggestions. It appears that compliance

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of *Sharia* audit with *Sharia* auditing standards, the training and competencies of *Sharia* auditors, and their independence is still problematic and questionable. Consequently, this calls for urgent attention should be taken as it may adversely affect stakeholders' trust in the IFIs' operations and activities concerning *Sharia* compliance (Omar, 2019).

Methods

This study is qualitative, whereby a questionnaire survey data collection is applied. There were five sections in the self-developed instrument. Section A contains ten (10) items to examine awareness of *Sharia* audits in IFIs in Malaysia. Sections B to C included the *Sharia* audit challenge (10 items), and Industry Experts' Recommendations on *Sharia* Audit (6 items). The respondents were required to indicate the relative importance of all items in Sections A to C on a four-point Likert scale (1: Strongly Disagree; 2: Disagree; 3: Agree; 4: Strongly Agree). The questionnaires were developed based on previous studies and the SGF 2010. Several practitioners and academics have pre-tested the questionnaire for the relevance of the items as subject-matter experts. In the meantime, in this study, practitioners are directly referred to as the SGF 2010 control functions. *Sharia* control functions are included under SGF (2010): *Sharia* audit, review, risk management, and research. The purpose of this research was split into four sections: the *Sharia* department, Audit Department, the Risk department, and Compliance Department, which are involved directly in the *Sharia* audit function. They are the most relevant people as they can reflect the reality of working practices in their everyday work. The words were not ambiguous in the items and related to existing methods. The internal consistency of the items was assessed, and the findings demonstrated that all items met Cronbach's alpha value of 0.7, as Nunnally (1978) suggested. Hence it was also above 0.6, which is a commonly accepted value in exploratory studies (Litwin, & Fink, 2003).

Precisely, the internal consistency of the items is – Awareness of *Sharia* Audit – 0.719, *Sharia* audit Challenges – 0.623, and Industry Experts' Recommendation on *Sharia* Audit Practices – 0.78. The questionnaires were dispersed to four departments: audit, *Sharia*, Compliance, and Risk. The respondents (practitioners) have been selected because they represent individuals who have been involved in day-to-day operations and activities in the control domain of *Sharia* that fit the scope of this study. A total of 40 questionnaires

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were distributed, and 23 questionnaires were returned. The Respondents' profiles are stipulated in Table 1. (Table 1).

Table 1: Response Rate

Questionnaire distribution	**Total**
Distributed	40
Received	(23)
Incomplete	(00)
Total usable responses	23
Response rate	57.5%

This section presents the demographic variables of the respondents. Table 2 shows the summary of the respondents' profiles. It begins with the gender; the result indicates that 14 male (60.87%) respondents have higher participation than their female (9) (39.13%) counterparts in the study. The findings of the age category show that 13 respondents (56.52%) are within the age of 30 -40 years and were the majority, followed by 5 (21.74%) aged below 30. The following category variable is the 'highest qualification'. The findings revealed that nine respondents (39.13%) had a bachelor's degree while the 12 respondents (52.17%) had a master's degree, and the remaining respondents 2 (.8.70) had a Ph.D. degree. Another category is 'Education Background'. The findings depict that nine respondents (39.13%) have a *Sharia* qualification, and four (17.39%) are from accounting qualifications. Whereas 5 are finance and two are economics qualified, respectively. Three respondents are from other backgrounds. It indicates that the *Sharia* background dominates practice. The following variable is the 'work experience' of the respondents. It was found that three respondents (13.04) had more than ten years of work experience and were the majority, followed by the nine respondents (39.13%) having 5- 10 years of work experience, the least were seven respondents (47.83%) are having 1-5 years work experience. The findings demonstrate that most *Sharia* audit practitioners have satisfactory work experience. Following is 'Organisational Affiliation.' The results show that 16 respondents (69.57%) are from Islamic Banking and were the majority, followed by seven respondents (30.43%) and the least respondents from Insurance/Takaful organizations. The results show that respondents are dominantly found in Islamic banking organizations. The last but not the last category is the 'designation' of the respondents who participated in the study. The outcomes demonstrate

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that ten respondents were from *Sharia* Department (43.48%), subsequent eight respondents (34.78%) were from audit departments, next is 2 -2 related to Compliance and risk (8.70%) Department and one was from other departments (4.35). The findings reveal that most of the respondents are from the *Sharia* department.

Table 2: Profile of Respondents

Variables	Frequency	Percentage
Gender:		
Male	14	60.87%
Female	9	39.13%
Total	23	100.0
Age:		
Below 30	5	21.74%
30 to 40	13	56.52%
41 to 50	5	21.74%
Total	23	100.0
Highest Qualification		
Degree		
Bachelor	9	39.13%
Masters	12	52.17
PhD	2	8.70%
Total	23	100.0
Education Background		
Sharia	9	39.13%
Accounting	4	17.39%
Finance	5	21.74%
Economics	2	8.70%
Others	3	13.04%
Total	23	100.0
How long have you been providing *Sharia* audit or services related to *Sharia* audit?		
1-5 Years	11	47.83%
5 to 10	9	39.13%
More than 10 Years	3	13.04
Total	23	100.0

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Results and Discussions

Awareness of *Sharia* Audit

As for the awareness of the *Sharia* audit, the survey findings revealed that understanding of the *Sharia* audit in Malaysia is satisfactory; the educational program and unique training program contributed substantially to this awareness, as 80% of the respondents are aware of the *Sharia* audit through these means. The findings are in line with the study of Isa et al. (2020), which discovered the level of awareness of *Sharia* audit is standard among *Sharia* scholars. In contrast, it is at a rudimentary level among the practitioners in Malaysia. These new findings are perhaps because the discipline of *Sharia* audit has received much attention from scholars, academicians, professionals, and other stakeholders operating within the framework of Islamic finance. Similarly, auditors are expected to respond to this new development, as they are equally likely to build up their expertise and competence in this field, eventually improving their professionalism in the current practices accordingly.

Regarding the timing, the findings show that the majority of the respondents support that the *Sharia* audit should be conducted Quarterly. Competent professionals should conduct *Sharia* audits and have a degree in *Sharia* and accounting or at least a professional qualification as part of the competency requirements. To preserve public trust and assurance, *Sharia* auditors should discharge their duties diligently. It is also required for them to have a necessary qualification. About the experience, findings encapsulate that *Sharia* auditors' experience is good. In response to the question of knowing the *Sharia* audit concept, most practitioners gained through Job training. Besides this, the question "Who should perform the *Sharia* audit" majority opines that internal auditors should perform it. Following the answer to the question "Who should appoint *Sharia* auditors for IFIs" most of the practitioners favored the *Sharia* Advisory Council (SAC) of the Central Bank. In a nutshell, the overall findings of the 'Awareness on *Sharia* Audit' are satisfactory. However, the study unveiled that the practice must be optimized to portray the *Sharia* audit accurately.

Challenges Associated with *Sharia* Audit

The survey discovered that there are various challenges linked with the *Sharia* audit. The pressing among them are competent and well-trained personnel to execute *Sharia* audit functions. The findings indicate that the *Sharia* audit practice in Malaysia is overwhelmed by a lack of competency, expertise, and

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proper qualifications in *Sharia*. This finding is congruent with the studies by Isa et al. (2020) and Karim & Shetu (2020), and their research demonstrate that the number of competent and expert *Sharia* auditors in IFIs needs to be fulfilled. Looking into the rapid growth of IFIs across the globe, and Malaysia as the major hub of IFIs, there is no doubt that the need for competent *Sharia* auditors needs the proper attention of the various stakeholders. In addition, the findings disclosed that the absence of an independent *Sharia* audit framework as well as particular standards and guidance are challenges weakening *Sharia* audit practices, for *Sharia* audit either from the external or internal body and the only BNM incomplete daft being available so far, is lacking to address the issue of *Sharia* audit comprehensively. The findings align with the studies of Karim & Shetu 2020, Khalid & Sarea 2020, and Isa et al. 2020.

Furthermore, the current study presents that the respondents also perceived the practice of *Sharia* audit to be relying heavily on the conventional framework, which is ingrained with capitalistic ideology due to the absence of its framework. Even though there are not many *Sharia* issues concerning a traditional framework for *Sharia* auditing. However, developing a *Sharia* audit framework in light of *Sharia* will undoubtedly improve stakeholders' confidence that the IFIs operate according to the *Sharia* principles. Meanwhile, some of the respondents agree to appoint *Sharia* auditors internally, majority of them have decided to appoint external auditors for transparent auditing. This supports the studies of Suraya et al (2018) and ISRA (2016).

In the same vein, the findings divulged that the scope of the *Sharia* audit must be much broader than the conventional audit, which specifies the range of audit engagement and the procedure to follow. The *Sharia* audit shall cover financial statements; people; processes; products, IT systems, and the organization's structure. These will enable the IFIs to have a sound internal control system for effective *Sharia* compliance. These findings disclose that internal *Sharia* auditors are perceived to be dependent on their respective organizations, and their independence could be questionable as employees performing the functions of *Sharia* audit. Similarly, internal *Sharia* auditors have no autonomy to communicate their reports directly to the final users. Still, it has to go through other committees before it reaches the final users, and the objective of independent judgment could be violated. As for the *Sharia* audit process harmonizing in IFIs, it is observed that most of the respondents agreed with this statement.

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Consequently, the ongoing challenges necessitate immediate attention to BNM being the main regulatory body of Islamic banking practices. It is worth noting that the challenges have existed for over three decades and could hinder the *Sharia* audit to great untrustworthiness. They may even have a negative impact on the sustainability of its practice in the future.

Conclusion

This study discussed *Sharia* audit issues and challenges in IFIs, for instance, the non-existent *Sharia* audit framework independency and competency of *Sharia* auditors. The study adopted a qualitative method and collected data through a survey. The findings showed that an independent *Sharia* audit framework needs to be established to accommodate the increasing number of IFIs in Malaysia. Further, it is also asserted that awareness of *Sharia* audit is satisfactory. The findings also revealed that most of the study's respondents do not have relevant *Sharia* qualifications for the said function, despite the eagerness of Malaysia to enhance the functions of *Sharia* audit in IFIs. The practical implication for this is that it will enable the IFIs, in general, to fulfill their functions effectively and in line with the *Sharia* principle, which will benefit the society (Ummah) at large. Hence, the study will help the practitioners to understand the type of competency qualification expected from them. The study will also give the practitioners an accurate picture of *Sharia* audit, enabling them to improve in various aspects concerning its practices. The practical implication is that practitioners can fulfill their responsibilities with due care and professionalism. As highlighted by the study, the regulators and the policymakers may find this study contributing towards tackling the challenges weakening the practice of *Sharia* audit. The practical implications are that there will be hope anew, that the *Sharia* audit is developed professionally, just as its 'conventional audit' counterpart. Finally, the study offers insights into the educational sector that the integration of *Sharia* audit into its audit curriculum has been overdue for a long time. The practical implication is that the universities will produce competent and knowledgeable students with both auditing and *Sharia* qualifications at once. This will surely help to have competent *Sharia* audit practitioners in various IFIs in Malaysia and worldwide in general.

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