

Challenges in Implementing Shariah Audit Framework

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AGENDA

1. SHARIAH COMPLIANCE FRAMEWORK
 - STRUCTURE
 - AUDIT STANDARDS
2. SHARIAH AUDIT APPROACH :
 - INTEGRATED & HOLISTIC
 - RISK-BASED
3. CHALLENGES
4. Q & A



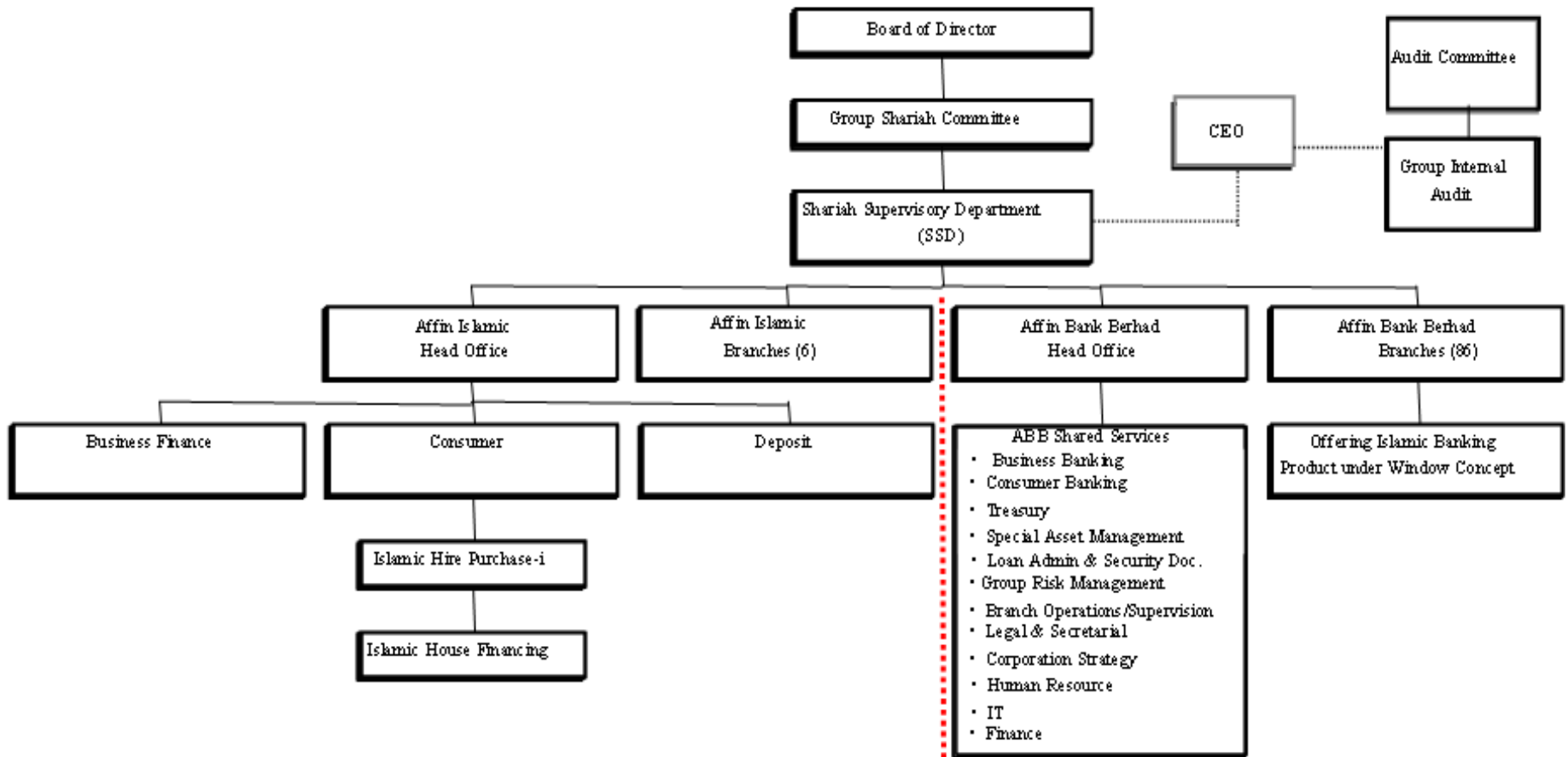


1. SHARIAH COMPLIANCE FRAMEWORK

- STRUCTURE
- AUDIT STANDARDS

AFFIN BANKING GROUP

SHARIAH COMPLIANCE FRAMEWORK STRUCTURE



AFFIN ISLAMIC BANK

(ISLAMIC BANKING SUBSIDIARIES OF AFFIN BANK)

AFFIN BANK

Audit Standards

- **Guiding Principles Issued By Islamic Financial Services Board (IFSB)**
- **Guidelines & Circulars Issued By BNM Relating to Islamic FI**
- **Resolutions of BNM Shariah Advisory Council**
- **Islamic Banking Act 1983**
- **Companies Act 1965**
- **Shariah Audit Standards Issued By AAOIFI**
- **Internally Developed Standards**
(Approved by Shariah Committee)
- **Shariah Framework & Operational Parameters**
- **Resolutions & Minutes of Meeting of Shariah Committee**
- **Internal Audit Standards – IIA**
- **Best Practices & Benchmarking**

2. SHARIAH AUDIT PROCESS :

- **INTEGRATED & HOLISTIC APPROACH**
- **RISK-BASED AUDIT APPROACH**

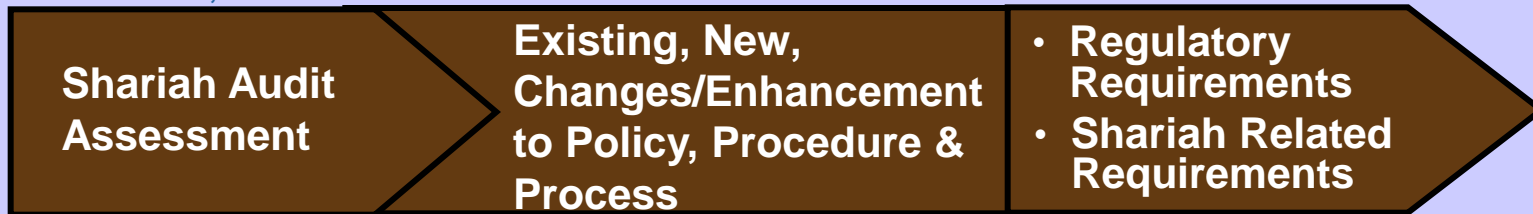


Shariah Audit Approach

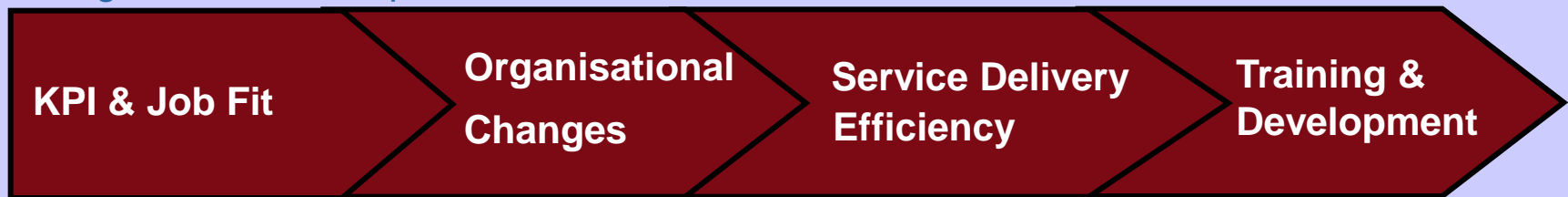
A. Integrated & Holistic Approach

Covering the followings :-

1. Policies, Procedures & Processes



2. Organisation & People

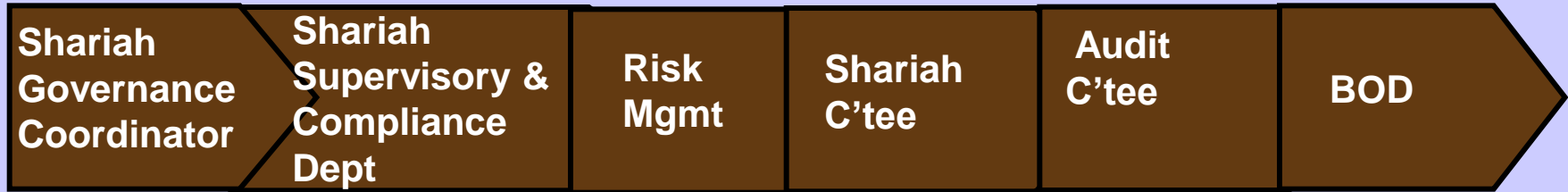


3. IT



Shariah Audit Approach

4. Governance & Oversight Function



5. Escalation Process



Shariah Audit Approach

B. Risk Based Audit Approach

Identification of Risk :-

- Operational
- Credit
- Market
- Regulatory
- Financial
- Shariah Non-Compliant
- IT, Reputational etc

Risk Assessment:-

- Process
- Product & Services

Shariah Audit Approach

C. Other Audit Approaches Adopted

- **Continuous Audit**
- **Partnership Audit**
- **End to End Audit**
- **Limited Audit**
- **“High” Risk Process Audit**
- **Follow-up Audit**
- **Surprise Audit**
- **Governance Audit**
- **3 Es Audit**
 - **Educational**
 - **Experiential**
 - **Enrichment**

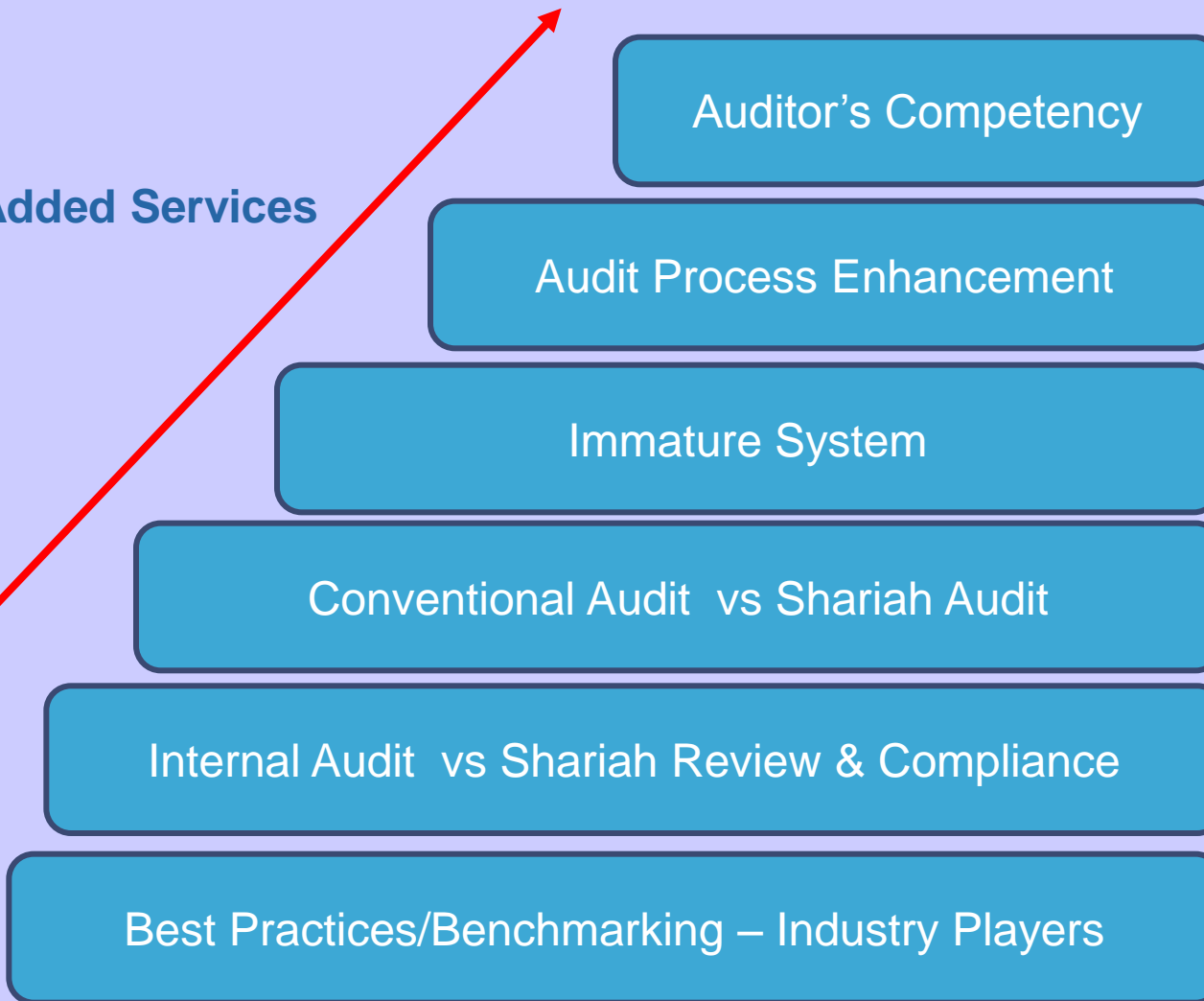


3. CHALLENGES

"This is where the trail gets a little more challenging." 10

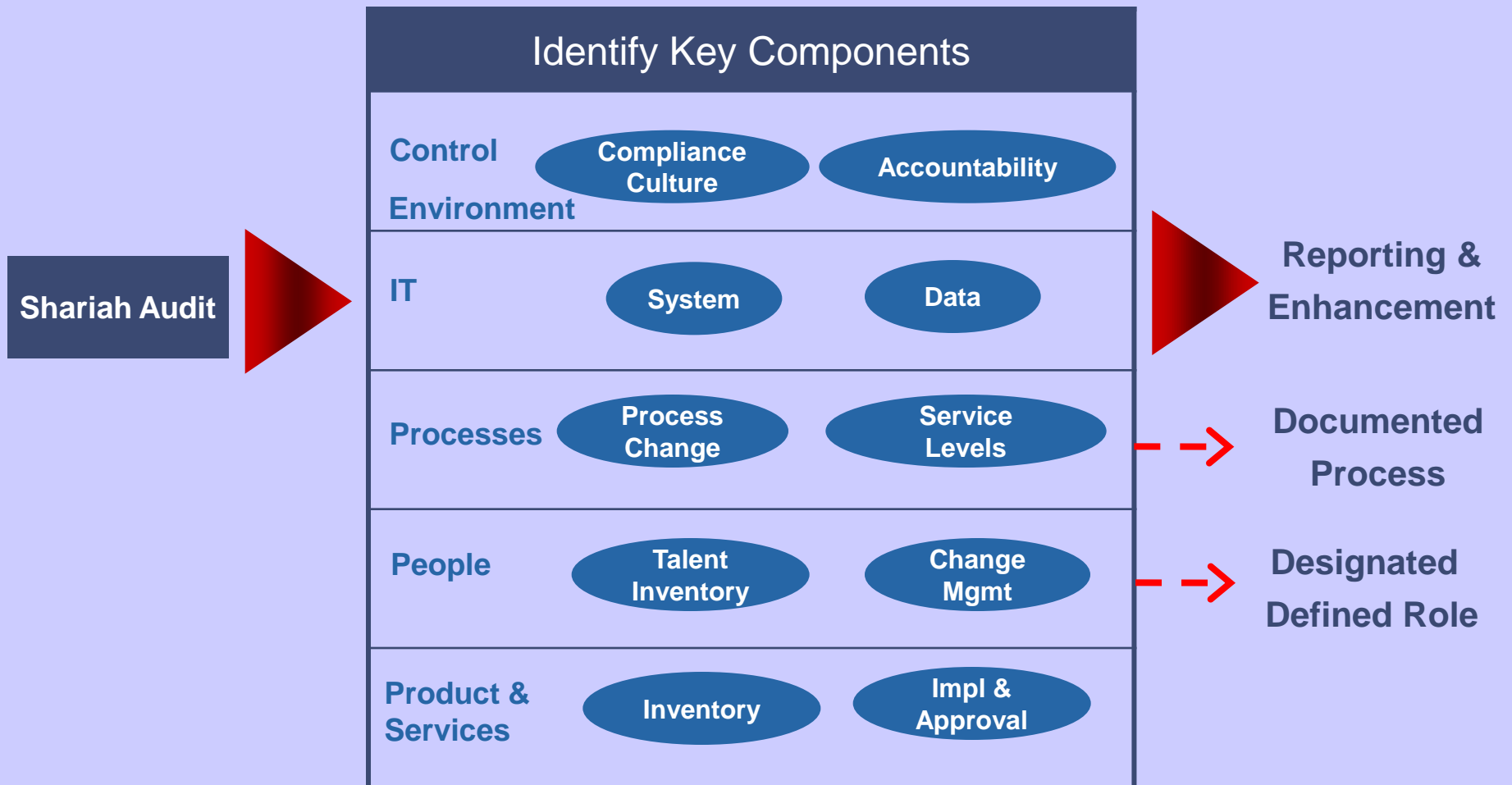
Challenges – Control Model

Value-Added Services



- Training & Certification
- Development of Specific Audit Plan
Audit Program & Report format
- Documented Process
- On-going Customisation
- Mindset Change
- Lack of Experts in both Banking Ops & Shariah
- Confused
- Clearly defined Roles & Responsibilities
- Limited knowledge on Shariah Audit Among the industry Players

Challenges – Auditing Shared Services



Challenges – Cont.

- **Identification of Risk Relating to Islamic Banking**
- **Escalation Process**
- **Lack of Awareness/Understanding on :-**
 - **Banking Product & Processes by Shariah Supervisory & Compliance Officers**
 - **Shariah Compliance for Entities Under Shared Services**
- **Audit - Shariah Compliant ???**
- **Rectification of Audit Findings**

Q & A

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