



SESSION 7:

Shariah Auditing: Harmonization of International Audit Standard & Shariah Requirement

•Some Lessons & Issues

What is Internal Audit?

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

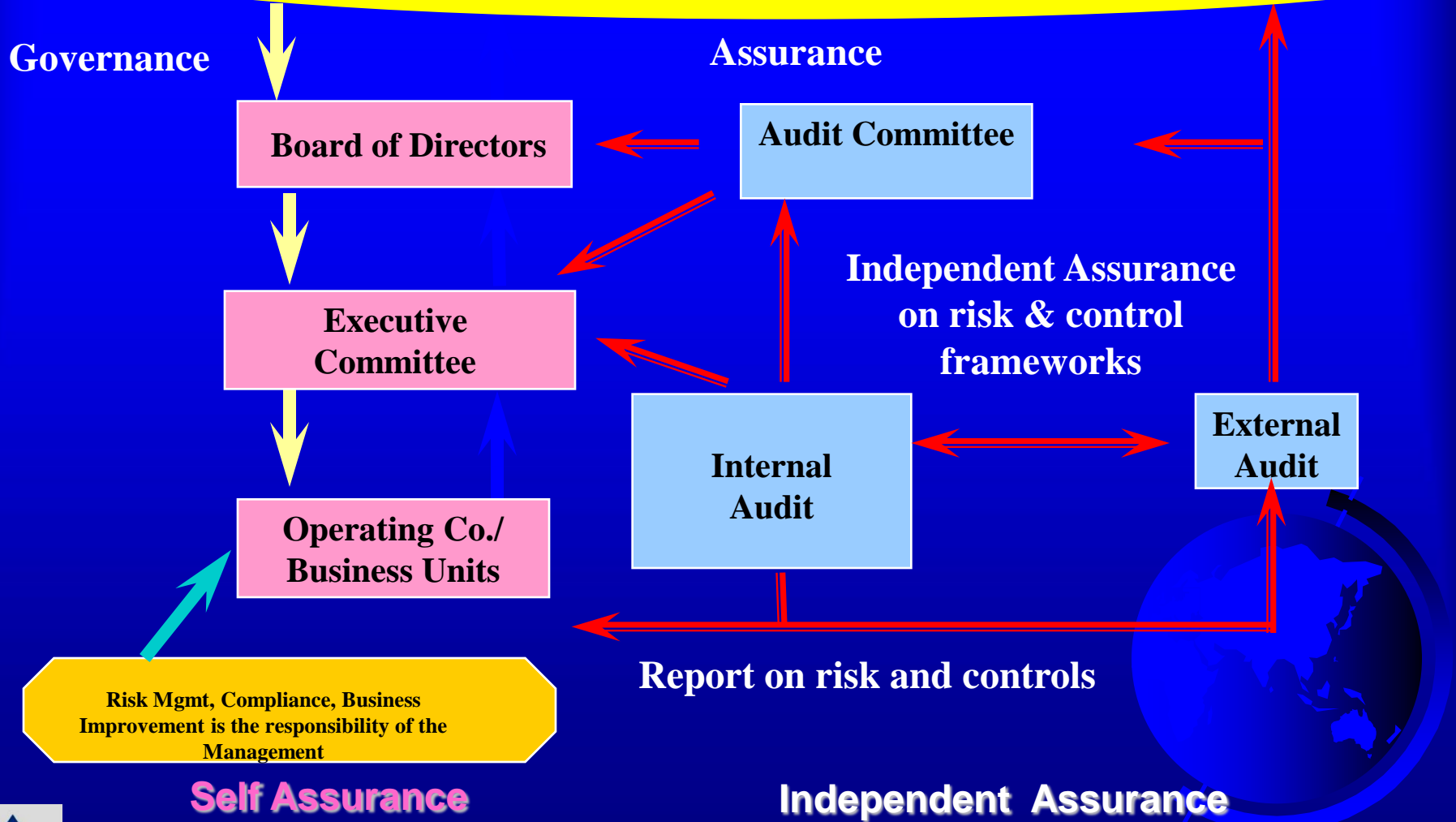
It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Adapted from Institute of Internal Auditors Inc, USA

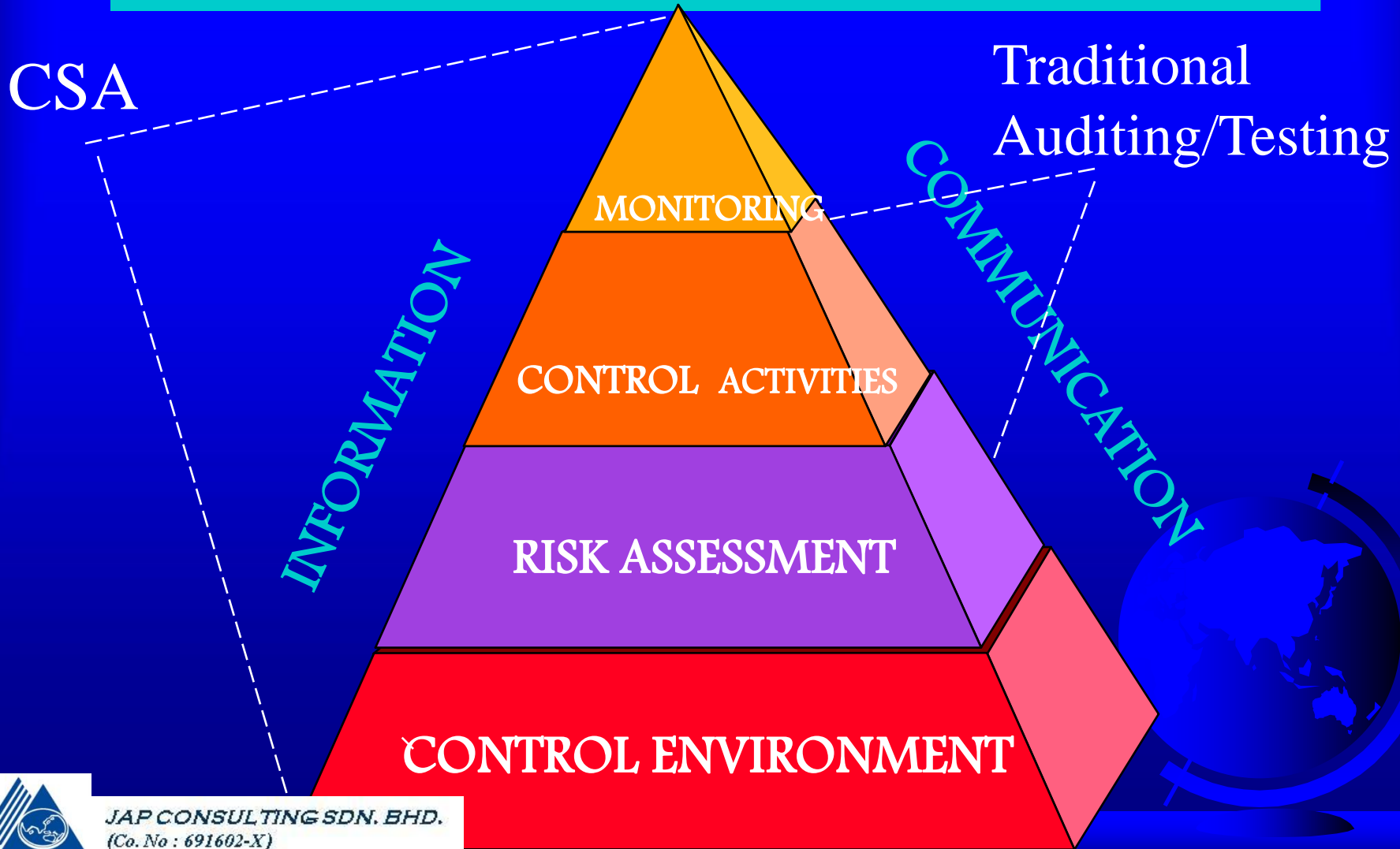


SELF ASSURANCE & INDEPENDENT ASSURANCE MODEL

Stakeholders



COSO Framework Control Components



Control Activities

☞ **Formal Controls:**

- **Directive** - code of business conduct, policy manual, written specifications and procedures
- **Preventive** - segregation of duties, security guards, locks, passwords, edits
- **Detective** - supervisory controls, quality assurance reviews, account reconciliations, exception reports



Control Environment

☞ Informal controls

- Corporate culture
- Integrity and ethical values
- Commitment to competence
- Management philosophy & style
- Communication
- Tone at the top



Issues on Governance?

1. Independent Objective Assurance
2. Accountability
 - Internal Audit
 - Audit Committee
 - Shariah Council or Committee



Issues on Consulting Roles?

Internal Audit : Conflict of Interest

- Assurance activities
- Consulting activities



Issues on Knowledge & Skills?

1. Internal Audit Competency Model
2. Business + Shariah + Auditing
 - Internal Audit
 - Audit Committee
 - Shariah Council or Committee
 - Others



Issues on Ethics & Integrity?

1. Code of Ethics

- ☞ Overall as organization or company
- ☞ Internal Audit
- ☞ Audit Committee
- ☞ Shariah Council or Committee
- ☞ Executive Management
- ☞ Board of Directors
- ☞ Shareholders

2. Spiritual strength....



Issues on Priority & Main Focus?

– *to identify the high risk exposures and required controls*

–Internal Audit is not proactively involve during inception of projects or investment idea, normally after event, or after crisis internal audit will come in

–Too much focus on financial risk & operational risk , not the business risk or the strategic risks



Issues on Reasonable Assurance, fully Shariah Compliance?

- Expectation gap between “reasonable assurance” on the state of internal control , to be able to mitigate fraud, “absolute assurance”, “fully Shariah Compliance”..

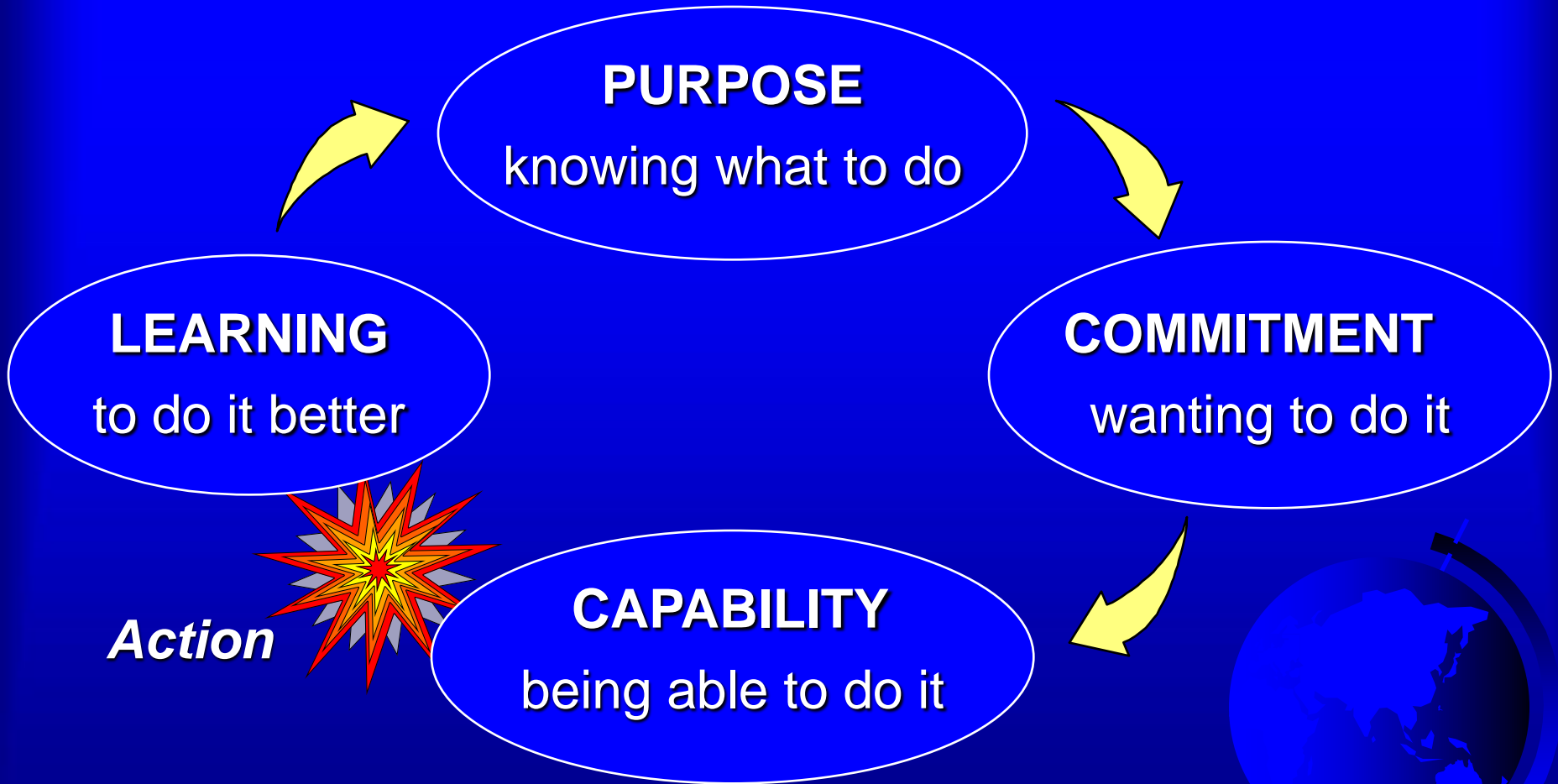


Issues on Behaviors Affecting Control?

- ☞ People are the most important internal control factor.
 - They make things happen
 - They can make a poor system work
 - They can make a good system fail
 - They are more important than the system
 - Their actions determine corporate success & Shariah Compliance...



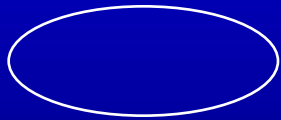
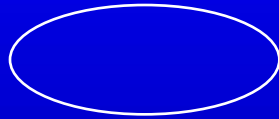
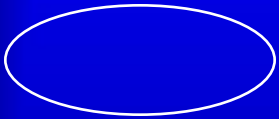
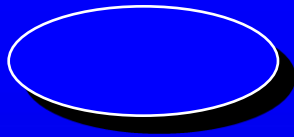
Internal Audit: Control Model



Purpose

- knowing what to do

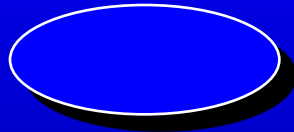
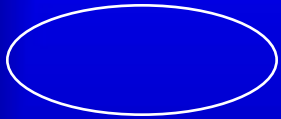
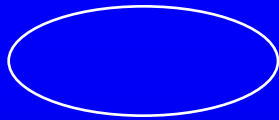
- Vision
- Leadership
- Authority
- Objectives
- Plans
- Risks
- Targets



Commitment

- wanting to do it

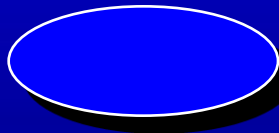
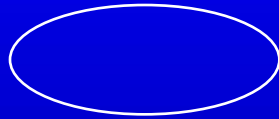
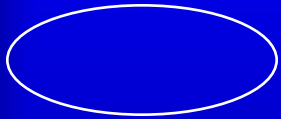
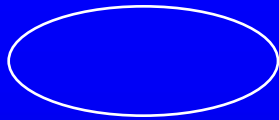
- Ethics
- Rewards
- Recognition
- Accountability
- Authority
- Trust
- Fun



Capability

- being able to do it

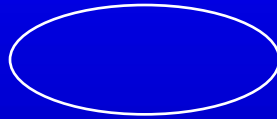
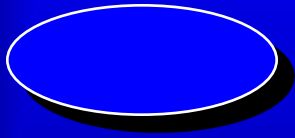
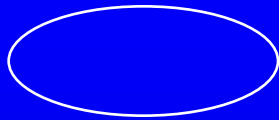
- Skills
- Resources
- Information
- Teamwork
- Communication
- Control
- Activities



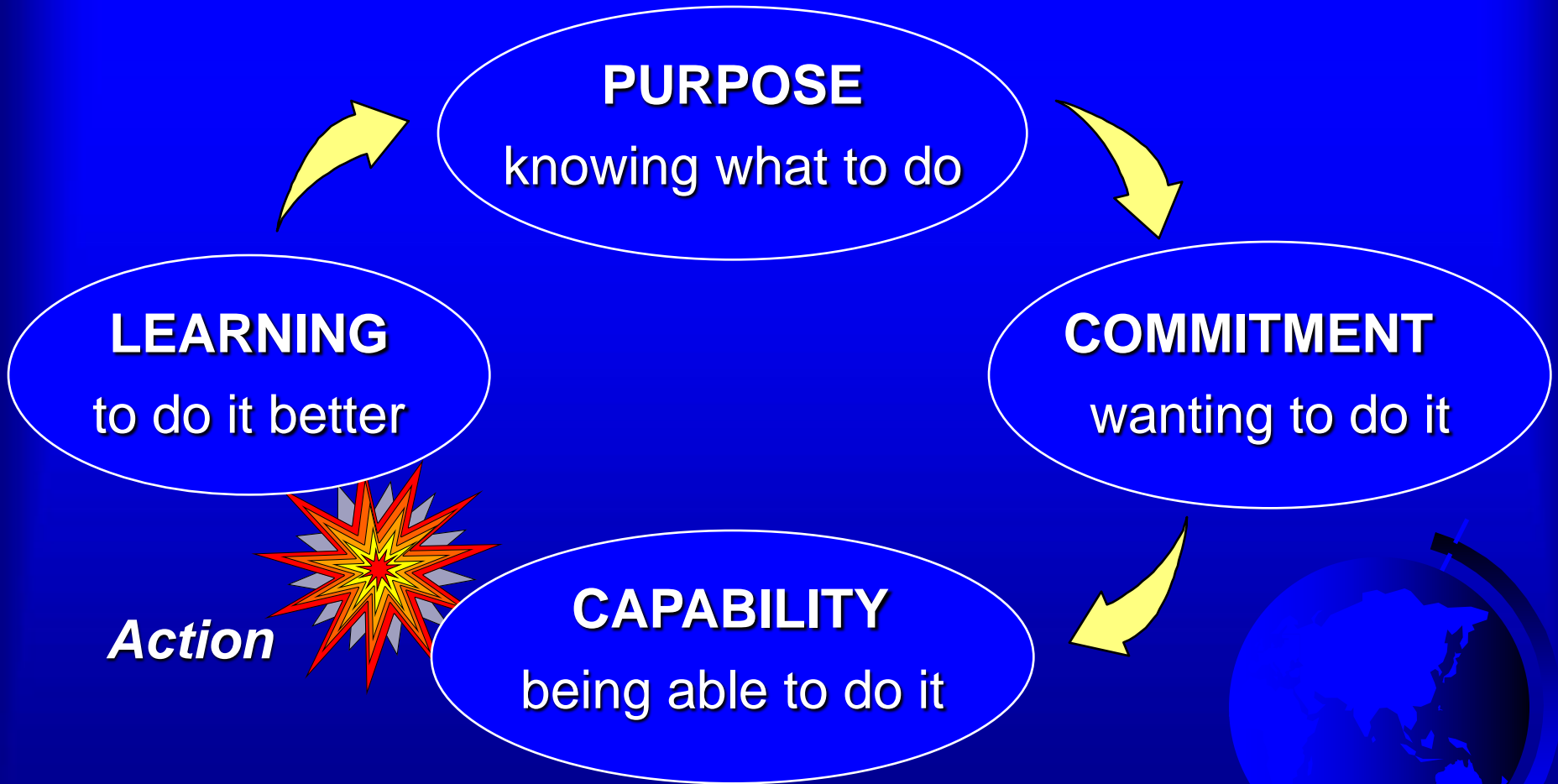
Learning

- how to do it better

- Benchmarks
- External events
- Challenge assumptions
- Review needs
- Effective change
- Self assessment



Internal Audit: Control Model



In Summary

- ☞ When an internal control system is in place, we mean it can be relied upon to meet its control objectives.
- ☞ Do we need Shariah Based International Audit Standard????





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