

Shari'ah Audit: An Analytical Perspective

Prof. Dr. Abdul Rahim Abdul Rahman

International Islamic University Malaysia (IIUM)

& Research Fellow, ISRA

(abdulrahim@iium.edu.my)

1. Shari'ah Review vs. Shari'ah Audit

Shari'ah Review = Self assurance

Perform by management i.e. Shari'ah department

Support the work of the Shari'ah Committee & basic requirements of the IFIs

Non-independence ex-ante and ex-post assurance process

Shari'ah reviewer is not an auditor

Shari'ah Audit = Independent assurance

Perform by internal Shari'ah auditor or/and external Shari'ah auditor

Enhance integrity & credibility of the IFIs

Independence in appearance & ex-post audit

Reporting directly to the Audit Committee & the Board

2. Shari'ah Committee: Organ of the Firm vs. Independent Function

Organ of the firm

- Shari'ah Governance Framework issued by Bank Negara Malaysia considers Shari'ah Committee as part of the organ in addition to the Board & the management
- The role is to advise & to supervise Shari'ah matters & answerable directly to the Board and management
- Is the Shari'ah Committee independent in terms of structure? If not, will it affect their function? Will it affect the integrity in the eyes of stakeholders of the IFIs?
- In the case of litigation, can the Board or/and the management shift their responsibility to the Shari'ah Committee? Does the structure as part of the organ increase the legal liability of the Shari'ah Committee?

Independent body

- If the Shari'ah Committee is not the organ of the firm then their role will be as an independent committee to advise the IFIs
- Similar to the Audit Committee, Shari'ah Committee should function to advise the Board & supervise the management.
- As an independent body, their role is limited as well as the liability
- Would this be more appropriate, rather than part time Shari'ah scholars be subjected to unnecessary pressure as well as liability?

3. External Shari'ah Audit Function

Audit Firm?

- Can financial audit firm ready to conduct Shari'ah audit? Their competency in Shari'ah knowledge & skills?
- Is it desirable for Shari'ah audit to become a commodity just like financial audit?
- Regulation & oversight body for Shari'ah audit?

Shari'ah Firm?

- Should we allow or encourage our Shari'ah scholars to initiate a Shari'ah firm to conduct Shari'ah audit?
- But are the Shari'ah scholars competent to audit?
- Professional bodies? Certification requirement? Regulation?

Bank Negara Malaysia?

- Why not BNM conduct Shari'ah audit? After all, they regulate and supervise other requirements
- Easier and more practical to enforce Shari'ah rulings of the Shari'ah Advisory Council.
- Is BNM willing and/or able to do Shari'ah audit
- Does BNM has the appetite for self regulation or centralised regulation?

4. Independence of Shari'ah Auditors



**Real independence or
independence in mind**

Difficult to be fully objective (Human instinct vs. machine)

Independence in appearance

Reporting to the Board & not to management

**Both, in mind as well as in
appearance**

To enhance integrity of Shari'ah auditors. Is it possible? Does it matter?

5. Shari'ah Auditor: Accounting Graduate vs. Shari'ah Graduate

Accounting Graduates

- With foundations in accounting and auditing, are they ready and able to be trained as Shari'ah auditor?
- Can they be trained with Shariah knowledge and skills such as Fiqh Muamalat?
- Which one is easier to be trained, accounting graduate - Shari'ah or Shari'ah graduate - auditing?

Shari'ah Graduates

- With foundation in Shari'ah, are they ready and able to be trained in technical auditing knowledge and skills?
- Need certification on auditing for Shari'ah graduate & Shari'ah for accounting graduate.

As the complexity and human resource needs of the industry are changing, the needs for Shari'ah audit education



Necessary qualification of Shari'ah audit professionals

Current situation

Basic skill set to audit Islamic banking products



Future

Comprehensive understanding of Islamic finance, auditing and Shari'ah principles

Shari'ah principles	+	Finance and auditing knowledge	=
---------------------	---	--------------------------------	---



Necessary education to equip internal and external auditors

Add-on programs on Islamic/Shari'ah principles for audit professionals and others

Curriculum innovation



Skills enhancement



Comprehensive curriculum

Specialization in Islamic finance & auditing

Shari'ah curriculum

