

THE INTERNAL SHARIA AUDITOR IN ISLAMIC BANKS

Emad Ali Meeloud Abdullah, Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia

Shahir Akram Hassan, Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia

ABSTRACT

The internal Sharia auditor is an essential in Islamic banks because of the significance of the role, as well as the impact he/she has on Islamic financial services and the ability to acquire services that are in compliance with Islamic Sharia. In light of the fact that the only thing that differentiates Islamic banking from traditional banking is its adherence to Islamic Sharia rules, it is obvious that every Islamic financial organization has a Sharia auditor. The purpose of this research is to understand the role of Sharia audit in Islamic banks, as well as to analyze and describe the roles and requirements of the internal Sharia auditor in controlling and directing the operation of Islamic financial institutions. In order to meet the study's aims, the following question was posed to participants: What is the role of the internal Sharia auditor in controlling and directing the work of Islamic banks? This study found that Sharia auditors have positively influenced Islamic financial products offered by Islamic banks, in terms of ensuring the safety of these products for customers. This was made possible through the findings of this study, which utilized a descriptive approach to accomplish the study's objectives. The researcher utilized previous studies and research in libraries to complete this study. The study recommended concentrating efforts on developing and improving Sharia audit management, as well as providing it with the attention it deserves. Additionally, the report advised expanding the number of Sharia auditors at each Islamic bank in order to perform more audits of financial transactions and thereby contribute to the control and direction of Islamic banks' operations.

Keywords: Shariah Auditor, Control and Guidance, Islamic Banks

INTRODUCTION

Islamic banks are the most visible occurrence in both the Islamic and international banking worlds. Within the last four decades, the banking system, which is based on Islamic Sharia-derived regulations and controls, has seen a series of progressive developments, most notably following the recent financial crisis, demonstrating that Islamic banks are more stable than conventional banks. Islamic banks' expansion and stability are contingent upon the trust of its customers, which is why Islamic banks have developed as a viable alternative to usury-based regular banks. Islamic banks have earned this privilege by adhering to the laws of Islamic Sharia, which is administered by a Sharia board. Internal Sharia audits are critical in regulating and directing Islamic banks. There has been a dramatic rise in the Islamic finance industry as well as in the work done by Islamic banks, making Sharia audit more important than ever before.

This research will explore the influence of Sharia audit in Islamic banks. The research is significant because of the role played by Sharia auditors in controlling and directing Islamic banks as well as in ensuring that they are in accordance with the norms of Islamic Sharia. An

Islamic bank's Sharia auditor also aids in the verification of financial statements as well as the identification of shortcomings and strengths in the institution. This research also adds to shining light on Sharia audit, which serves as one of the primary pillars of Islamic banks, by assisting them in carrying out their responsibilities and achieving their objectives in the most efficient manner.

BACKGROUND OF THE STUDY

The establishment of Islamic banks in the heart of the Muslim community is viewed as a reaction to and fulfilment of Muslims' desires to abide by the principles of Sharia, particularly in the area of financial transactions, as well as a step toward achieving that goal. Muslims all around the world have come to accept Islamic financial institutions. With the expansion and variety of their product lines, these financial institutions required a valid reference that would recognize and evaluate their efforts. These principles are embodied in Sharia audit, which has the responsibility to review and audit the work of an Islamic bank, particularly in the formulation of new contracts, the formulation of Islamic legitimacy, and the purification of existing contracts from impurities that are in violation of Islamic Shariah rules and regulations.

PROBLEM STATEMENT

With the growth of the financial industry and the diversification of its products in Islamic banks, it became imperative to ensure the security of financial transactions and their compliance with Islamic Shariah laws. Globally, it is believed that about \$500 billion in assets are managed according to Islamic principles. As a result of Islam's estimated 1.3 billion adherents, many of whom live in parts of the world where extra funds have lately accumulated, considerable interest in Islamic finance has been developed in recent years. In cities like Dubai, London, Kuala Lumpur, Singapore, and Bahrain, areas known for Islamic banking, or places that have created their own Islamic banking practices, have arisen. Islamic banking has grown at a rate of roughly 10% per year for the last decade. Numerous global banks and financial organizations, like Citigroup and HSBC, have begun to offer Islamic financial services. Dow Jones has even established the Dow Jones Islamic Market Index, demonstrating the expanding prominence of this financial segment. Since there was scarcity in the investigation of internal Shariah auditor in the context of Islamic banks. This study was done in order to maintain the faith of dealers in the banks and their banking activities. As a result, the research problem was summed up in the following main question:

What is the role of Sharia audit in Islamic banks?

Sub-questions are produced as well.

- 1- What is the concept of internal Sharia audit in Islamic banks?
- 2- What are the tasks of Sharia audit in Islamic banks?
- 3- What are the requirements for managing the internal Sharia audit in Islamic banks?

METHODOLOGY

The study used a content analysis and historical data in order to understand the notion of the audit of Sharia law and his/her function in supervising and managing Islamic banks. In order to achieve the goals, researchers carried out a qualitative study.

PREVIOUS STUDIES

The researcher has already done quite a bit of research and investigation on the Shariah Supervisory Board, which was mentioned in the earlier studies and papers. Previous studies focus on Shariah audits and lack key information. Here are some previous studies.

Control standards issued by the AAOIFI body of 4 standards:

Control Standard No. 1 Appointment, the Shariah Supervisory Board.

Control Standard No. 2 Shariah Supervision.

Control Standard No. 3 Internal Shariah Control.

Control Standard No. 4 Review and Controls for Islamic Financial Institutions.

Some studies that dealt with the subject of Shariah supervision:

Bohren & Zuaibit, (2014)

The purpose of this study was to bring attention to the relevance of Sharia supervision and its role in connection to Islamic banks by examining the case of Al Ithmaar Bank in Bahrain. To complete the investigation, the researcher turned to descriptive and analytical methods. The outcome showed that in one country there was plurality of Sharia supervisory boards that resulted in numerous fatwas from the Board. The study proposed that Sharia supervisory boards be required to consult the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in the event that their members disagree on a specific fatwa (Bohren & Zuaibit, 2014)

Matay, (2018)

The goal of this study was to examine the topic of efficient Sharia supervision in Islamic banks in order to accomplish the following primary objectives. The first is to pay close attention to the subject of supervision, its mechanisms of operation, and its significance for Islamic banks. Second, to ascertain the difficulties associated with implementing Sharia supervision in Islamic financial institutions and the amount to which it contributes to competitiveness and commitment. This study advised reconsidering the auditing board's composition in order to include religious scholars and economic jurists. Additionally, it maintains complete independence in expressing its views without being influenced by any party (Matay, 2018).

Hatta Shams El Din and Abdel Khaleq (2016)

This study examines the authority of the National Shariah Board in the implementation of sharia regulations in Islamic banks in Indonesia and the methodology it used for issuing fatwas. The descriptive analytical method was employed in this study to achieve the study's goals. According to the study, Indonesia's National Shariah Board has played an essential role in expanding the Islamic financial transactions industry, overseeing banking activities, and

educating and leading the society. In Indonesia, the sole body with the authority to give fatwas in financial transactions is the National Shariah Board (Hatta et, al., 2016). When evaluating past research, it was discovered that the vast majority of them concentrated on the subject of Sharia supervision. The current study is notable for focusing on the role and importance of Sharia auditing in controlling and guiding Islamic banks in compliance with Islamic Sharia laws.

CONCEPTUAL FRAMEWORK

The Concept of Islamic Banks

There are various definitions of Islamic banking. Islamic banks are defined in the first item of Article V of the agreement creating the International Federation of Islamic Banks as “Islamic banks in this system mean those banks or institutions which their establishment law expressly stipulate to adherence to the principles of Sharia, and not to deal with interest by giving and taking” (Bohren & Zuaibit, 2014).

Islamic banks are sometimes referred to as non-interest-bearing banks, banks that do not deal in interest, or banks that operate on the participation principle. Abd al-Salam Abu Qahf defines it as: “It is an Islamic financial institution with an economic and social mission that operates under Islamic teachings”. It is a bank with a message, not just a merchant; it is a bank that seeks for the most beneficial enterprises rather than the most profitable. The goal of the Islamic Bank is not merely to construct an Islamic financial system, but to help build a full Islamic society based on ideological, ethical, and economic principles, implying that it is a favor for Allah's religion.

The definition of Islamic bank in a book "The Economics of Money, Banking and International Trade" by "Abdul Naim Muhammad Mubarak & Mahmoud Yunus" (2015) came as: “A banking institution whose goal is to collect money and savings from everyone who does not wish to deal in usury (“Riba” interest) and then work to employ them in various fields of economic activity, as well as provide various banking services to customers in accordance with Islamic Sharia and achieve support for the goals of economic and social development in society” (Muhammad Saeed Sultan et al., 1989).

Economic and Social Development in Society

As for Dr. Ahmed Al-Najjar (1980), he defined it as: “An entity and a container, in which sound economic investment thinking and money looking for a halal profit are mixed, so that channels can emerge from it that embody the essential foundations of the Islamic economy, transfer its principles from theory to practice, from conception to reality. It attracts capital that may be sitting idle in order to relieve its owners of the burden of dealing with it through the purchase of homes that they are embarrassed to deal with in their hearts. (Ahmed Al-Najjar, 1980).

The Concept of Sharia Audit

Taking a look at the reality of Islamic financial institutions today-even in theoretical research - we discover that the concepts and terminology employed in Sharia supervision are

similar to those used in conventional supervision. Some scholars refer to supervision in the sense of a comprehensive system that includes everything. Some describe it the function of the administrative unit inside the organization's organizational structure that ensures that the institution adheres to Islamic Sharia provisions as considered by the Sharia board (Abdel Moneim Mohamed, 1996).

This process is also referred to differently; some call it Sharia supervision, others Sharia review, and still others Sharia audit. As a result, it is necessary to start by defining these three terms: Sharia supervision, Sharia review, and Sharia audit.

First: Sharia supervision: it is a unified, sophisticated system that has several components, with distinct goals, methodologies, and means of operation. The financial institution must consider Shariah standards to fulfil its commitment to Islamic Sharia (International Standard No.400, 2004).

Second: Sharia audit: It is one of the primary components of Sharia control. It involves a special administrative unit completing specialized duties. In order to make sure the university upholds Islamic Sharia law.

In the words of some researchers, Shariah auditing is a "confirmatory and consultative activity within the facility, designed to monitor and improve the achievement of the organization's objectives by verifying that the institution adheres to all of the controls and provisions issued by the Shariah board, in addition to the necessary policies and plans for the implementation of Shariah". Additionally, to make recommendations for changes that need be made in order for the institution to achieve the highest degree of Sharia compliance (Khalid, et al., 2018)

Researchers and financial institutions also have an obligation to distinguish between these phrases so that they do not become confused. Dr. Abdul Bari Meshal said: (It is not appropriate to use the term Sharia supervision to refer once to the system, once to the administration that is part of the system It is fitting that Islamic financial organizations' sharia supervision units are referred to as sharia audit departments (Meshal, 2018).

FINDINGS AND RECOMMENDATIONS

The researchers arrived at a number of inferences as a result of what was provided. Sharia audit in terms of being an independent department or department in Islamic financial institutions is a novelty that was established with the establishment of Islamic banks. In addition, the presence of Shariah audit in Islamic banks is of great importance, because Shariah audit is the only body that has the ability to ensure the integrity of transactions from deviations that may encounter during implementation. The commitment of Islamic banks to Sharia scrutiny is a sign of the quality of their commitment to the provisions of Islamic Shariah to protect them from falling into mistakes and Sharia violations, and one of the greatest means to increase the confidence of those who deal with them. Shariah audit in Islamic banks or in some of them faces a number of difficulties that hinder their work, such as the lack of human cadres and others. Furthermore, organizing the Shariah audit profession entails the supervisory monetary authority approving the Sharia auditing processes, regulations, and laws that are applicable to Islamic financial organizations and Sharia auditors. It also refers to the establishment of official institutions to supervise the audit profession in general and Sharia in particular in its various

manifestations, in a manner similar to the structure of the systems and institutions currently in place at the level of financial and accounting auditing and banking inspection (Nader Al-Senussi, 2015).

On the other hand, numerous systems must be certified by the supervisory monetary authority on an obligatory basis in order to professionalize Sharia auditing (CIBAFI, 2004). Statement of principles, Sharia norms, and requirements for the quality of professional work, rules of behavior and professional ethics, and a standard for the scientific and practical qualification of Islamic auditors are all included. Additionally, standards for policies and procedures for the quality of professional performance of the team, standards for quality control and accountability and accountability mechanisms, a list of external and internal Sharia audit offices, an External and Internal Sharia Auditors System, and a standard for quality control and accountability and accountability mechanisms are included: Conditions for practicing and obtaining a license, establishing a register of external sharia auditors licensed to practice the profession, approving the general rules for obtaining a fellowship in sharia auditing, regulations of the Quality Control Committee for the Professional Performance of the sharia Audit Office, the Quality Control/Quality Control Manual in the sharia Audit Firms, the Manual of the Quality Control Committee for the Professional Performance of the sharia Audit Office, the Manual of the Quality Control Committee (AAOIFI,2004)

In relation to the requirement of shariah auditing department to conduct its job professionally and ensure the degree of the institution's commitment to Islamic Shariah in all of its activities, shariah auditors must therefore possess scientific qualifications and professional skill, as well as Islamic ethics and a variety of other characteristics such as an appropriate college degree, ongoing training on internal Sharia audit tasks, professional competence and practical qualification to gain the necessary skills to collect evidence and know legal violations, mastering the provisions and principles of Islamic Sharia in general and jurisprudence of transactions.

In the context of Shariah audit tasks in Islamic banks, the bank's Sharia Supervision Department is in charge of analyzing and auditing all internal and external investment operations and activities, as well as contributing in the creation of financing formulas, contracts, and implementation procedures. Sharia auditing can be confined to via conducting many tasks such as studying the forms, contracts and financing formulas to be implemented in the bank to be submitted to the Shariah Board, follow up on all fatwas, decisions and recommendations issued by the Shariah Board, assisting the Sharia Supervisory Board in performing the tasks and responsibilities assigned to it, following up and preparing for the meetings of the Sharia Fatwa Board, and monitoring the results and recommendations issued by these meetings, examine the extent of the bank's commitment to the fatwas and recommendations of the Shariah Supervisory Board and its adherence to the provisions of Islamic Sharia, follow up the implementation of the concerned departments and sections of the Sharia Supervisory Department instructions and any other decisions or recommendations related to Sharia matters issued by the Sharia Supervisory Board, participation in the development of a guide and procedures for implementation in the bank, An inventory of all the activities of the Islamic bank and the preparation of a Sharia control manual for it and its procedures, provided that the manual is approved by the Sharia Supervisory Board of the bank, preparing legal examination forms for all activities carried out by the bank and its branches in accordance with the decisions, fatwas and recommendations of the Shariah Supervisory Board that relate to the legal verification of each activity, ensuring that any activity,

service or contract in progress in the bank is approved by the Shariah Board, examining and reviewing all contracts and operations carried out by the bank and assessing the extent of its compliance with the fatwas and decisions of the Shariah Supervisory Board and its adherence to the provisions and principles of Islamic Sharia, ensuring the integrity, effectiveness and evaluation of the internal control system, preparing periodic reports for the Audit Committee that include the results of what the Shariah Supervision Department has done in terms of examining the operations, and what corrections and improvements must be made, while noting the outstanding work whenever possible, discuss the observations and preliminary results reached by the Shariah Supervision Department with the concerned department before issuing its final reports, carry out periodic field monitoring visits to the management of the institution and its branches, participate in activating employee training plans and contribute to raising awareness of customers and others about the assets and features of Islamic banking (Yahya Muhammad, 2019).

In fact, the tasks of Sharia audit vary into two types: the first type: auxiliary activities, such as assisting the authorities in the performance of its duties and assisting bank management in the Sharia application technique, policy creation, product implementation, and employee qualification. The second type: the executive tasks, which are confined to all Sharia audit functions on all bank operations, and this is the principal task handed to the Sharia auditor.

Recommendations

Based on the foregoing, the researchers made the following recommendations:

- 1- The researchers recommend the regulatory authorities regulating the work of Islamic banks to issue legislation obligating them to establish a Shariah audit department for all branches of Islamic banking.
- 2- The necessity of fulfilling certain conditions in the Shariah auditing member that take into consideration to assist him in carrying out the tasks entrusted to him.
- 3- Great care for the proper selection of employees and workers in Islamic banks, because this is one of the most important reasons for the success of the Shariah audit, and work to rehabilitate them scientifically and practically.
- 4- Increasing the number of employees in the internal Sharia audit department to audit the largest number of financial transactions.

CONCLUSION

Sharia auditing is a separate department in Islamic banks. It is critical for banks and those who do business with them to earn their trust and maintain their business continuity. Sharia audit also safeguards banking transactions, products, and services from falling into Sharia violations, which guarantees that money is safe and secure. Sharia auditors manage and control banks in order to uphold Sharia's principles. The Sharia auditor helps make financial accounts more accurate by identifying and addressing issues with Islamic banks. One of the primary strengths of Islamic banks helps them operate efficiently and achieve their aims.

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