

PERCEPTIONS OF SHARIAH SCHOLARS ON SHARIAH AUDIT IN MALAYSIAN TAKAFUL INDUSTRY

Noor Aimi Bt Mohamad Puad
IIUM Institute of Islamic Banking and Finance
International Islamic University Malaysia
nooraimi@kuis.edu.my

Nurdianawati Irwani Abdullah
International Islamic University Malaysia
irwani@iium.edu.my

Zurina Shafii,
Universiti Sains Islam Malaysia
anakshafii@gmail.com

ABSTRACT

Takaful is shariah compliant insurance scheme which become an important component in the Islamic financial system in Malaysia. Takaful industry in Malaysia is relatively young compared to other sectors in the financial industry, but it has enjoyed robust growth. However, despite the robust growth, Takaful industry also continues to face several challenges such as ineffective governance practices. Ineffective governance practice will lead to the possibility of facing shariah risk and incident of shariah risk in their activities and operation. Shariah audit function is one of the component of governance that play a role in ensuring the takaful operator to have a sound and effective internal control system of shariah compliance. This study aim to examine the shariah scholars' perception on current shariah audit process and scope particularly in Takaful industry. Semi-structured interviews was conducted with shariah scholars who are members of the Shariah boards in various Takaful Operators. The finding discovers that there are different points of view demonstrated by the Shariah scholars. This study may provide relevant guidelines for future development of shariah audit practices in Islamic financial institutions in achieving *maqasid shariah*.

Key word: Takaful, shariah audit, shariah compliance

INTRODUCTION

Malaysian Takaful market demonstrates positives growth rate from time to time since its inception and commencement of the operations of the first Takaful Operator Company, Syarikat Takaful Malaysia Berhad (STMB) in August 1985 (Othman, 2017). Since the first establishment of Takaful Operator in Malaysia, Takaful industry has become a significant contributor towards Malaysian Financial system as a whole. To date, there are 11 takaful operators in Malaysia. Among the 11 Takaful operators, 8 are composite companies which means selling both family and general Takaful business, while another 3 is purely involved in family Takaful. The composite players are required to split into separate family and general entities by 2018 as in line with regulatory requirement. People all over the world also start to recognize and accept this Shariah compliant insurance.

Despite the growing number of takaful operations, the Takaful penetration rate and share of Malaysian Takaful industry is still much lower than conventional market (Juliana et al., 2013; Md.Husin & AB. Rahman, 2013). It has been reported that the market share of Takaful industry in Malaysia is 12% of the total conventional insurance and Takaful market in 2015 (Milliman, 2017). Many issues and challenges have been discussed previously such as shortage of human capital, inadequate technology capabilities, ineffective governance practices, and lack of innovation in business model for new market niches. (Mohd Fauzi et al., 2016; Deloitte, 2015).

The related issue in this study is ineffective governance practices which subsequently will expose the Takaful Operators to shariah non-compliance risk in their operations and activities. Having effective Shariah governance is very crucial in mitigating shariah non-compliance risk faced by Takaful Operators (Yusof et al., 2015). In line with that, Bank Negara Malaysia has provides the guidelines which known as Shariah governance framework (SGF) in 2011 which introduce to four main functions of shariah compliance organs; shariah review, shariah audit, shariah risk management and shariah research and development. Shariah audit is among an important function which serve as a governance mechanism in Islamic finance as it provides the verification that the IFIs operate according to the Shariah (Shafii et al., 2010). On the other ground, shariah Committee who has the responsibility to express their opinion that the operation of the IFIs is fully Shariah compliant may rely the information from the audit work performed on various aspects of the operations. This practice indicates that the ex post processes of Shariah compliance are greatly determined by the shariah audit function of IFIs and not solely to the shariah committee (Hasan, 2014; Shafii et al., 2010).

Therefore, the main objective of this study is to examine the perceptions of shariah scholars who are basically shariah committee from different Takaful Operators and Islamic bank. The perceptions of these scholars are very important since based on SGF, there are dotted line between the shariah audit function and shariah committees which indicates the requirement of shariah audit function to do their reporting to shariah committee (BNM,2019). The discussion of opinion from the scholars is divided in three different areas; i) scope and process of shariah audit ii) adequacy of current standards iii) Improving current practices. In general, the study found that the practice of shariah audit have achieved the minimum objective of shariah audit function which is to ensure a sound and effective internal control system of shariah compliance but there was a lot of improvement need to be done in order to achieve *maqasid shariah*.

LITERATURE REVIEW

Takaful And Malaysian Takaful Industry

Takaful is an Islamic insurance concept which is based on Islam muamalat, to comply with the rules and regulations of Islamic law (Abu Hassan et al., 2014). This concept has been practiced in various forms for over 1400 years. The word “takaful” is derived from an Arabic word “*kافل*”, which means “joint guarantee” or “guaranteeing each other” (Billah, 2003). According to Takaful Act (1984) of Malaysia, takaful can be defined as a scheme based on mutual assistance, which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for the purpose. The definition have been extend after the enforcement of Islamic Financial Services Act (IFS 2013) which further define takaful as an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund providing for mutual

financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events. This new definition by IFSA 2013 can be considered more comprehensive (Jamil and Jamal, 2016).

On the other hand, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) had define Takaful as system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The main elements in Takaful is *tabarru'* and *taawun* which promotes the concept of donation and mutual help (Saputra et al., 2016). The concept of *tabarru'* which integrated in the takaful serves to eliminate the element of uncertainty in the agreement as a participant decides to give up certain part of his contribution as a contribution (Ismail, 2013). Takaful is an alternative for conventional insurance which is rejected by shariah due to elements of uncertainty (*gharar*), interest (*riba*) and gambling (*maysir*) in its operation (Kamil & Mat Nor, 2014). Uncertainty in conventional occurs when the insurance policyholder is “buying” or paying for nothing if no loss occurs. Policyholders will get compensation in varying amounts if loss occurs. Gambling is the second elements in conventional insurance which the insurance policyholder is hoping to get compensation. While the conventional insurer receives huge amounts of money from the insured in the form of premium payments. Finally, the element of *riba* where conventional insurer invest the premiums in interest-bearing fixed income instruments such as conventional bonds.

Number of takaful operators has increase recently due to resilient demand. People across the world starts to choose and accept the concept of *tabarru'* in Takaful. Currently, more than 80 takaful operators are operating globally, not only in dominant Muslims countries, but also in non-Islamic countries such as Australia, Switzerland, and Luxembourg (Md. Husin & Ab. Rahman, 2013). Malaysia is among the country which have largest family takaful market globally with 33% of market share (Milliman, 2017). Takaful in Malaysia has been established since 1985. Table 1.1 shows the list of Takaful operators in Malaysia with the year of establishment.

Table 1: Takaful Operator for General Takaful and Family Takaful Business

| <i>No.</i> | <i>Name</i> | <i>Year of establishment</i> |
|------------|----------------------------------|---------------------------------|
| 1 | Etiqua Takaful Berhad | 2007 |
| 2 | FWD Takaful Berhad | 2019 |
| 3 | Hong Leong MSIG Takaful Berhad | 2006 |
| 4 | MAA Takaful Berhad | 3 rd March 2006 |
| 5 | Prudential BSN Takaful Berhad | 2006 |
| 6 | Sun Life Malaysia Takaful Berhad | Jan 2013 |
| 7 | Syarikat Takaful Malaysia Berhad | 29 th November 1984 |
| 8 | Takaful Ikhlas Berhad | 18 th September 2002 |
| 9 | AIA Public Takaful Berhad | 11th March 2011 |
| 10 | AmMet Life Takaful Berhad | 30th April 2014 |
| 11 | Great Eastern Takaful Berhad | 10th December 2010 |

Sources : Bank Negara Malaysia, 2019

Shariah Audit

Shariah auditing can be defined as a systematic process of obtaining sufficient and relevant evidence to form an opinion as to whether the subject matter i.e. the personnel, process, financial as well as non-financial performance is consistent with the Shariah rules and

principles which is widely accepted by the Islamic community and to report to the stakeholders (Mohamed Sultan, 2007).

On the other hand, the Shariah Governance Framework (SGF) introduced by BNM in 2010 defined shariah audit in para 7.7 as “periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI’s business operations, with the main objective of ensuring a sound and effective internal control system for shariah compliance” (BNM, 2011). This latest Shariah Governance Exposure Draft issued by BNM on November 2, 2017 also re-defines the Shariah audit as: “A function that provides an independent assessment on the quality and effectiveness of the IFIs internal control, risk management systems, governance processes as well as the overall compliance of the IFIs operations, business, affairs and activities with Shariah”.

AAOIFI’s Governance Standard for IFIs no. 3 elaborate the objective of shariah audit as “the primary objective of the internal shariah review (carried out by independent division or part of internal audit department) is to ensure that the management of an IFI discharge their responsibilities in relation to the implementation of the shariah rules and principles as determined by the IFI’s Shariah Supervisory Board (SSB)”.

Hameed(2008) has provide broader definition of shariah audit which defined as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about socio-economic, religious and environmental actions and events in order to ascertain the degree of the correspondence between those assertions and shariah (Islamic law) and the communicating the results to users”.

Moreover, Lahasna (2016) is in the opinion that the comprehensive definition of shariah audit is the one which stated by Haniffa (2010) and quoted as “ a systematic process pf objectively obtaining and evaluating evidence regarding assertions about religious and socioeconomics actions events”. This definition is considered as exhaustive as it includes the socioeconomics aspect.

All the above definition have provide good understanding on the definition of shariah audit. There a few keywords of shariah audit definition which can be captured which differentiate shariah audit with the normal audit. Figure 1.1 below summarized all the important elements in shariah audit.

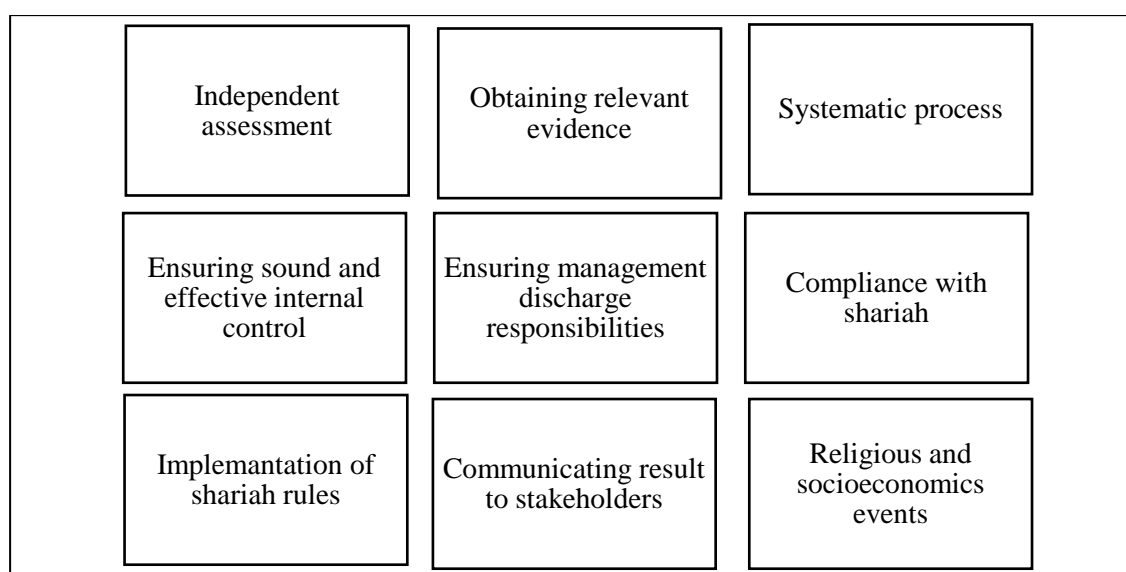


Figure 1: Highlighted keyword in the definition of shariah audit
 Sources : Researcher (2019)

Process And Scope Of Shariah Audit

Shariah audit process is the steps involve in performing shariah audit function which is done by auditors which basically consist of i) preliminary review ii) establish materiality and asses risk iii) plan the audit iv) consider control for shariah compliance v)perform audit procedure vi)issue shariah audit report (Hanefah et al., 2012).

According to Shariah Governance framework(SGF), the process of shariah audit should consist of understanding the business activities of the IFI to allow for better scoping of an audit exercise; developing a comprehensive internal audit program or plan which includes the objectives, scope, personnel assignment, sampling, control and duration as well as establish proper audit processes, policies and procedures of IFI's operations; obtaining and making reference to relevant sources, including the SAC's published rulings, the shariah committee's decisions, fatwas, guidelines, the shariah audit results and the internal checklist; conducting shariah audit on a periodical basis; communicating result of any assessment or findings arising from the shariah audit to the Board of Directors, Audit committee and the shariah committee; providing recommendations on rectification measures taken as well as following up on the implementation by the IFI.

Hanefah et al. (2012) highlighted on the critical features of shariah audit process as below:

Table 2: Critical features of shariah audit process

| Shari'ah audit process | Critical feature |
|------------------------|---|
| Plan | <ul style="list-style-type: none"> • Go through preliminary review as tools for do the sampling • Doing the sampling |
| Execution | <ul style="list-style-type: none"> • Do the internal control evaluation • For external auditor: internal audit is part of the plan because they want to rely on reporting and so on. • For internal auditor: part of execution scope of internal audit because one of the objectives of internal audit is to look into the control. So, internal control evaluation is major scope in internal audit itself. |
| Audit report | <ul style="list-style-type: none"> • Shari'ah audit report to audit committee then leave the decision to the board |

Sources : Hanefah et al., 2012

Lahsasna (2016), on a similar notes identified that a proper Shariah audit plan should contain the following: i)Understanding IFI business; ii)Understanding the appropriate contract of the business; iii) Identifying the appropriate techniques, resources and scope; and iv)Developing the audit plan and program.

On the same ground, Htay et al.(2013) describe the process of shariah auditing as below in figure 2:

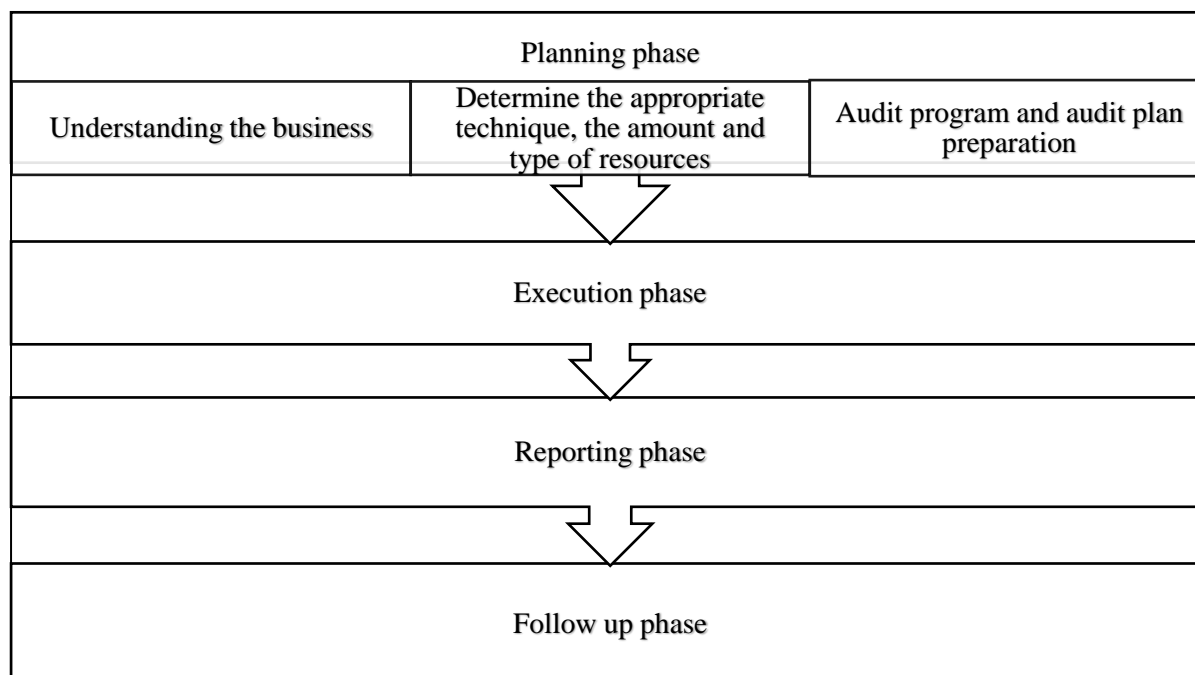


Figure 2: Process of shariah auditing
 Sources : Htay et al. (2013)

Lahsasna et al. (2014) in the previous study also suggested that good audit evidence should have the features of sufficiency, appropriateness, reliability, relevance and persuasiveness. In addition, there are few rules that need to be followed such as i) Documentary evidence is preferred over testimony evidence ii) Evidence obtained from different sources or of a different nature is preferred iii) Original papers are better than photocopies iv) Evidence collected from third party is better than the evidence collected from within the organization.

Malaysian Takaful Industry has been regulated by Bank Negara Malaysia and there are few regulatory requirement that they strictly have to follow such as Islamic Financial Services Act 2013 (IFSA 2013), Shariah Governance Framework (SGF 2011) and Takaful Operational Framework. As highlighted in SGF 2011, there are few areas that should be covered by auditor when conducting shariah audit. Among the areas are: (i) audit of financial statements of the IFI;(ii) compliance audit on organizational structure, people, process and information technology application systems; and (iii) review of adequacy of the Shariah governance process.

This study addresses the following research questions:

RQ1. How shariah scholars perceive the level of comprehensiveness of current shariah audit scope and process?

RQ2. What do Shariah scholars think about the sufficiency of the existing standard in guiding efficient and effective performance of Shariah auditors?

RQ3.How to improve current shariah audit practices?

RESEARCH METHODOLOGY

This study conducted semi-structured interviews with shariah scholars from different Takaful Operator to explore their views on the shariah audit practice. All respondents were given the same questions in order to answer the research questions of the study. These semi-structured interviews were conducted face to face with the shariah scholars. There are 10 respondents involved in the interview sessions which representing Takaful industry. Majority of the respondents were shariah committee in Takaful operators.

The reason of choosing these shariah committee is because of their involvement in shariah audit process. Based on this SGF, shariah auditor needs to do reporting to shariah committee after Board of Audit Committee as there is a dotted line between shariah audit function and shariah committee. Moreover, study by Khalid et al. (2018) revealed that the role of shariah committee could influence the relationship between independence, experience and effectiveness of internal Shariah auditors. Hence, shariah committee is the best respondents for this study.

The interviews were conducted in the interviewee's office and each interview lasted not more than one hour. Table 3 present the details of the interviewee.

Table 3: Details of the Interviewee

| No. | Position | Gender | Total years of experience |
|------|--|--------|---------------------------|
| SS1 | Shariah committee for foreign ownership Takaful Operator | Female | 1-5 years |
| SS2 | Shariah committee for local ownership Takaful Operator | Female | 1-5 years |
| SS3 | Shariah committee for local ownership Takaful Operator | Male | 5-10 years |
| SS4 | Shariah committee for local ownership Takaful Operator | Male | 10-15 years |
| SS5 | Shariah committee for local ownership Takaful Operator | Male | 5-10 years |
| SS6 | Shariah committee for local ownership Takaful Operator | Male | 5-10 years |
| SS7 | Shariah committee for local ownership Takaful Operator | Male | 5-10 years |
| SS8 | Shariah committee for local ownership Takaful Operator | Female | 5-10 years |
| SS9 | Academician | Female | 5-10 years |
| SS10 | Shariah committee for local ownership Takaful Operator | Female | 1-5 years |

In terms of interview design, the study used the key informant interviewing approach in designing the interview questions. In the key informant interviewing method, the researcher selected the respondents by considering their position, role and willingness to communicate. In this regard, the study chose shariah board members in various IFI considering their essential role in Shariah governance Framework which related to shariah audit function.

EMPIRICAL FINDINGS

Scope And Process Of Shariah Audit

RQ1 investigates level of comprehensiveness of shariah audit process and scope in ensuring shariah compliance in Takaful. This findings will discuss two main elements of audit practice which is the process and scope. The current practice are too fragmented and not well structured because of the inexistence of one general framework for shariah audit (Yusoff, 2013). Majority of IFI modified conventional audit framework and thus the shariah auditor itself should be competent enough to make a judgment (Yusoff, 2013; Yahya, 2012). Audit process should include at least the four stages; planning, executing, reporting and follow up (SGF,2011) . The opinion of the shariah scholars on current audit process can be categorized into three:

1. Current audit process is comprehensive enough.
2. Current audit process need further improvement and enhancement
3. Others

There are few scholars in the opinion that the current audit process is comprehensive enough which means that the audit process have followed all the requirements by existing standard be it regulatory framework or shariah standard. This is based on the report that have been presented during planning stage and reporting stage. SS5 stated:

“...these are all comprehensive in my opinion based on the audit report and audit finding...they did present to shariah committee for the audit plan...”

SS6 also have same opinion by mentioning:

“..So far from my experience...I can say that the shariah audit process is sufficient for the time being considering the size of the business...”

Takaful Operators itself is aware of occurrence of shariah non-compliance risk that will affect their commercial lost and therefore they are very careful when it comes to mitigate the risk related to shariah non-compliance. SS6 commented as follows:

“..The reason is that the Takaful Operator is very worry about shariah non-compliance risk whereby it would lead to commercial lost. It will hit balance sheet. Or profit or loss statement...so that is the reason why they worked hard..”

There are few Takaful Operator are originally from the company which also provide banking services and they admit that all the process have been determined by their regional office and they have to follow suit. This may become the reason why they feel that their process is comprehensive enough. SS4 stated:

“..they follow strictly all the requirement ..not just regulator.. but the group as well..yes..this organization is kind of bit conservative..”

Most of the scholars are in the opinion that current audit process need further improvement and enhancement. One of the scholars who is the shariah committee for Takaful Operator and Islamic bank state that the current audit process of Takaful Operators is not comprehensive as compared to Islamic bank industry overall. Little attention was given to takaful industry because people may perceive that products offered by Takaful Operator is not much and variety as compared to banking product. But there are still many issues that should be highlighted rather than focusing on the product. SS8 commented:

“..issues in takaful is different compared to issues in banks..banks very much focus on product and instruments. The area for audit in takaful is different..they should be looking more on governance..”

Shariah audit process also need to be enhanced in the executing stages whereby the auditor should not get the evidence from the officers only, but he himself should get the

information from the third party such as from the customers or publics. There are some of the auditors that just depend on report made by the officer without going through the real audit fieldwork.

One of the scholars stated that in order to ensure the operation of takaful comply with shariah and achieve the main objective, it is not depends on aspect of shariah audit process, but it is the matter of the person in charge on conducting the shariah audit. SS1 mentioned:

“ The person who conducting shariah audit must be competence enough in term of knowledge and skills. This is to ensure their efficiency and professionalism in conducting the audit practice...”

Thus, it can be concluded that based on the analysis if the findings, the process of shariah audit still need for further improvement and enhancement in the planning stages and executing stages. This is congruence with the study by Yakhziruni et al. (2018) which revealed that the shariah auditing has only been performed at the surface level and there is still a room for improvement.

In the planning stages, it can be observed that they are very few engagements between shariah auditors and shariah committee and some even do not engaged with shariah committee at all during planning stages. During the seminar on shariah auditing which was held in September 2018, one of shariah committee have revealed that shariah committee expected to be involved in planning stage as this is the crucial stage in the shariah audit process. During audit planning, the auditors will decide on the audit plan and audit program. It might happened that during planning stage, without the involvement of shariah committee, the auditor will overlook on some of the important scope especially the shariah risk area as some of them does not have expertise in shariah area.

For executing stages, the improvement need to be done in obtaining the evidence. Executing stages also known as fieldwork. Fieldwork includes performing the tasks specified in the audit programs to gather evidence to evaluate the present activities of the auditee, taking into account the audit requirements that have been defined (Mihret and Yismaw,2007). There are few studies which revealed that fieldwork is among the factors which contributed to the effectiveness of internal audit quality (Arena and Azzone,2009; Cohen and Sayag, 2010;Khalid et al., 2017;Steffano and Maza, 2018).

In term of scope of auditing, most of the scholars agree that the scope of auditing should widen up. Although SGF has suggested on auditable areas for shariah audit, but still there are few Takaful Operator have not be able to fulfill the requirement and there are also Takaful Operator who just depends on shariah reviewer to cover the scope where as there are different function between shariah auditor and shariah reviewer. Although shariah reviewer have review certain things, it is still the obligation of shariah auditor to perform periodical independent assessment. These is among the responds from respondents regarding the scope covered for shariah audit:

“..Takaful Operator should widen up their scope to the agent practices..” SS3

“..Auditor should look into another perspectives as well when deciding on the scope..” SS7

“..should focus more on shariah governance elements...”SS8

Based on the analysis, majority of Takaful Operators have complied with the available guidelines such as SGF at minimum. However, none of these Takaful Operators have go beyond what have been stipulated in the guideline. This findings show inconsistencies in the practice of shariah audit for Takaful Operator. Study by Ab. Ghani and Rahman (2015) also have similarities findings which indicates that full fledged Islamic banks have already established most of the elements in the audit scope, but not for Islamic subsidiaries.

CURRENT AVAILABLE STANDARDS

RQ2 analyze the adequacy of current standard which is available in guiding shariah auditor in performing shariah audit function. As what have been highlighted in previous study, shariah audit is different from conventional audit and there is a need of having detail and proper framework that cover all the process and scope as a guide to shariah auditor. Based on the interview, it can be concluded that most of the scholars perceived that the existing available standard is not sufficient especially for Takaful industry. One comprehensive framework mainly for Takaful industry should be provided and it has to be different than what have been provided for banking industry as they have different nature of business and unique operational specificities. The framework is very important as it will become benchmark for Takaful Operator in exercising the best conduct of shariah audit. SS1 stated:

“...Takaful Operator must have their own standard because if they practice differently, they might be something that will be overlooked...”

Currently, the available standard is for auditing only such as guideline for internal auditor by central bank which focusing more on the internal audit function in the organization, but it does not take consideration of shariah perspective (Yusof, 2015). In addition, the available standards also is too general and insufficient to guide the auditor properly as Takaful actually as different type of model. There are several critical areas in Takaful that need attention from the players in the industry. The desired shariah audit framework must not be too detail, but should cover all aspect such as duties and responsibilities of shariah auditor. As emphasized by SS5:

“..The current standard is not sufficient. The standard should cover duties and responsibilities of shariah audit...”

In addition, SS4 mentioned:

“..current standard is not sufficient in guiding shariah auditor because there are quite few models used in Takaful..there are many critical areas that need to be cover in details for Takaful..There should details in differentiating operational part, shariah part and legal part...”

The standard is important as it can provide the benchmark for the best practice, otherwise Takaful Operator will just depend on their preference in performing shariah audit which finally affect the Takaful Industry as a whole. Thus, it can be admitted that there is none availability of the best practice guidance for shariah audit in takaful industry. This is line with previous studies which demand for shariah audit framework quite a long time since the function of shariah audit become mandatory for IFI(Kassim et al., 2009; Shafii et al., 2010; Yahya and Mahzan, 2012;Kassim and Sanusi, 2013). The development of this comprehensive shariah audit framework will contribute towards strengthening shariah audit function. SS6 stated:

“..the standard for takaful should be different form banking because they have different product and services..different operational framework..”

In contrast, there is only one scholar think that what we have now is adequate as they perceive that our central bank as a regulator have always done at the very best level and up to date in enhancing the function of shariah audit.

IMPROVING CURRENT AUDIT PRACTICES

Finding of RQ 3 is on the opinion from scholars on how to improve shariah audit function and will discuss on how shariah audit function can contribute to bring Islamic finance industry at the next level. Among the recommendations are:

- a. Industry should have more competent shariah auditor which have integrated knowledge; shariah knowledge and accounting knowledge.
The integration of these knowledge is very crucial in preparing competence shariah auditor to conduct effective shariah audit function. Otherwise the level of shariah audit practice will not be changed and the shariah auditor itself should bear in mind that shariah audit should be beyond compliance and they have to think out of box rather than just depends on what is required by regulator.
- b. Specific guideline should be provided in guiding shariah auditor and improving this importance function of shariah governance practice.
Based on observation, currently Takaful Operator have their own audit manual which adopted from standard stipulated by International Standards for Professional Practice of Internal Auditing (IPPF) issued by Institute of Internal Audit and Guidelines on Minimum Audit standards for Internal Auditor of Financial Institutions issued by BNM. This make the loophole in the current practice of shariah audit as the existing guideline does not take into consideration for shariah aspect.
- c. Widening scope of auditable areas.
Scope of shariah audit should be as wide as possible to ensure the comprehensiveness of shariah compliance in all of their product and activities. The current scope focus mainly on product offered by Takaful operators rather than looking into some other important elements in Takaful operations such as investment, agent and so on.
- d. Design audit program that considers public benefit/public good.
The main objective of shariah audit function is to ensure a sound and effective internal control system for shariah compliance. Internal control system is related so much with the objective of the organization itself. In this case, management of Takaful Operators should set strategic direction towards achieving sustainable development goals which currently become transforming agenda by 2030. With regard to this transformation agenda, Bank Negara Malaysia has come out with Value Based Intermediation (VBI) for our industry. The main function of VBI is to deliver the intended outcomes of shariah. Hence, there should be a designation of audit program that consider both financial and non-financial aspect. Perhaps there also should be involvement of multi stakeholders in stage of planning for shariah audit program.
- e. Revise the main objectives of Takaful establishment
Takaful Operator should look back at the objective of their establishment. They have to understand the important concept in takaful which is *Taa'wun* and *Tabarru'*. By understanding these two main elements, Takaful Operator could come out with the product which just not focusing on profit motive, but also can make them achieve the main objective of takaful.

SUMMARY AND CONCLUSIONS

The research findings from the semi-structured interviews highlight several important points pertaining to the shariah audit function especially for Malaysian Takaful Industry. The analysis finding indicates that there are shortcomings in the existing shariah audit function particularly in the aspects of scope and process which still have the room for improvement. The study indicates that there are different opinions from scholars regarding the comprehensiveness of shariah audit process and scope. The roles of regulatory framework also is very crucial in shaping the practice of shariah audit function as most of the scholars in the views that the current available standard is not sufficient in guiding the shariah auditor to play their role.

Another important observation is that same focus should be given to the Takaful industry by the regulator although the size of takaful business is smaller than Islamic bank. In order to achieve *maqasid shariah*, the Takaful Operators should look beyond financial performance in their operations and consider to design comprehensive audit program that can fulfill the public benefit/public good requirement and social responsibility.

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