

Title	<Special Feature "Malaysian Practice of the Islamic Economy at a Crossroads: Issues and Challenges">Understanding the Planning Process and Challenges in Shariah Audit Execution: The Case of Malaysian Takaful Operators
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Citation	イスラーム世界研究 : Kyoto Bulletin of Islamic Area Studies (2019), 12: 69-85
Issue Date	2019-03-25
URL	https://doi.org/10.14989/240726
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Type	Departmental Bulletin Paper
Textversion	publisher

Understanding the Planning Process and Challenges in Shariah Audit Execution: The Case of Malaysian Takaful Operators

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I. Introduction

The Islamic financial system in Malaysia has witnessed a tremendous growth in demand, acceptance and development since its introduction in 1962. It began with the establishment of the Malaysian Pilgrims Fund Board (Tabung Haji) and the country's first Islamic bank, Bank Islam Malaysia Berhad which began operations on 1 July 1983. Islamic banking, with the development of *sukuk* and the Islamic capital market, wealth management and Takaful, in Malaysia and elsewhere, is trying to offer an alternative to the financing needs of the society as opposed to the prevalent *riba*-based system that is full of oppression and exploitation. For Takaful industry, Syarikat Takaful Malaysia Berhad was the first Takaful operator that was incorporated on 29 November 1984 followed by the commencement of operations on 22 July 1985.

In the development of the Islamic finance sector in Malaysia, it is essential to have effective and vibrant Shariah governance (Hassan, 2009). Islamic financial institutions have the duty to ensure the compliance with Shariah principles in all aspects of their products, instruments, operations, practices and management which will be achieved through the establishment of a proper Shariah governance framework (Miskam, 2013). Good Shariah governance can ensure Islamic financial growth by attracting more people to use the products or services from Islamic financial institutions (IFI). Having good Shariah governance will also reduce reputational risks faced by IFI.

Shariah audit is the key pillar of good Shariah governance as it provides the stakeholders with an independent view on whether or not the organizations have an appropriate risk and control environment to manage Shariah non-compliance risk. Since the introduction of Shariah Governance Framework (SGF) in 2011, Shariah audit function has become mandatory for every IFI. However, the Shariah audit function is very briefly discussed in SGF. In order to provide assurance environment, there should be an appropriate Shariah auditing framework in improving Shariah audit function. The guideline on Shariah auditing is very important as it acts as a distinguished added value to Islamic financial Institutions.

Because of the non-availability of a Shariah auditing framework, most of the IFI were using the conventional auditing framework (Othman and Ameer, 2015). There are also few cases related to Shariah non-compliance issues attributed by the absence of a proper auditing

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process (Rahman, 2008). According to Yusoff (2013), there were rampant instances of the “form over substances” compliance as shown in the competitive and sometimes irresponsible behaviour of certain IFIs, where Shariah compliance was used merely as label or marketing gimmick for commercial purposes, compromising the ethical and religious standards of Islamic transactions. Hence, it is very important to study and to understand how Shariah audit is conducted in Islamic Financial Institutions given that there is no specific framework for this practice. Thus, it is the objective of this paper to investigate the planning process conducted in the Shariah audit exercise by Malaysian Takaful Operators, in order to shed light on industry practices on Shariah audit, especially on how planning of the audit is undertaken. Lack of adequate guidelines on the practices, motivated the researchers to conduct this study.

This paper is divided into four main sections. Literature review section discusses the definition of Shariah audit, Shariah audit framework and planning exercises in Shariah audit. Section three features the discussion on study design and methodology. Section four presents the substantial findings, and the final section contains the concluding comments.

II. Literature Review

2.1. Definition of Shariah Audit

Shariah audit is one of the key aspects in the Shariah governance system that serves as an independent assurance function that the institution are complying to the Shariah. The known as the third line defence for its function. Rahman (2008) defined Shariah audit as the accumulation and evaluation of evidence to determine and report the degree of correspondence between information and established criteria for Shariah compliance purposes.

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 Sharia compliance*” (BNM, 2011).

AAOIFI’s Governance Standard for IFIs no. 3 elaborates upon 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).*”

In 2008, Hameed has defined Shariah audit 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 Sharia (Islamic law) and communicating the results to users.*”

According to Deris (2018) during one seminar with the topic of “Shariah audit: comply or face consequences,” currently there are three types of Shariah audit model that have been practised by in the Islamic finance industry:

- i. Appointment of dedicated Shariah auditor: Establishment of specific Shariah audit department
- ii. Embedded function Shariah audit function in internal Shariah audit function: IFIs embed a Shariah audit program with a mandatory internal audit and will refer to the Shariah department when they have any Shariah issues.
- iii. Hybrid: IFIs do not have any specific Shariah audit department, but appoint specific Shariah auditor(s) in the internal audit department. Usually the auditor will not respond to all audits, just for Shariah audit only. The auditor could also be the reference for the internal audit findings for the audit team and they do not have to refer to the Shariah department.

2.2. Shariah audit framework

2.2.1. Shariah Governance Framework (SGF)

The objectives of the Shariah Governance Framework are to establish a robust Shariah governance structure of Islamic Financial Institutions and to provide a comprehensive guidance to the board, Shariah committee and management of the Islamic Financial Institutions in discharging its duties in matters related to Shariah. In addition, the framework outlines Shariah governance related functions, Shariah review, Shariah audit, Shariah risk management and Shariah research.

The primary objective of SGF is to enhance the role of the board, the Shariah committee and the management in relation to Shariah matters. This includes enhancing relevant key organs as they have the responsibility to execute the Shariah compliance and research functions to achieve a Shariah-based operating environment. SGF stated the qualities of Shariah auditors as follows: 1) Shariah audit ensures a sound and effective internal control system for Shariah compliance, 2) Internal auditors may engage the expertise of the IF’s Shariah officers in performing the audit, as long as the objectivity of the audit is not compromised, 3) The Shariah audit may be conducted as part of the IFI’s thematic audit on specialized areas, 4) The board audit committee, upon consultation with the Shariah committee shall determine the deliverables of the Shariah audit function that should be consistent with acceptable standards.

2.2.2. Internal audit guidelines by Institute of Internal Auditors (IIA)

The Malaysian Institute of Accountant (MIA) has approved the Internal Audit Guideline for being the reference for the internal audit practice. In fact, these guidelines have been

adapted by the Internal Audit Committee of the Malaysian Institute of Accountants from the publication “Guidance for Internal Auditors” issued in June 1990 under the aegis of the Consultative Committee of Accountancy Bodies (CCAB) in the United Kingdom. These guidelines provide advice to internal auditors on the main issues and procedures which need to be considered as part of work in both the commercial and public sectors including IFIs.

There is also one objective in this guideline which highlights the aspect of planning. The internal auditors should adequately plan, control and record his work. This is to determine priorities, establish and achieve Shariah audit objectives and ensure that audit resources are effectively and efficiently used.

2.2.3. Minimum audit standards for internal auditors in financial institutions by BNM

The guideline on minimum audit standards for internal auditors in financial institutions was circulated with three main objectives; to emphasize and strengthen the quality and effectiveness of the internal audit function, to re-emphasize the role, duties and responsibilities of internal auditors to the Board of Directors, all levels of management and external auditors and finally to provide a uniform practice on the internal auditing which would serve as a basis for the guidance and measurement of the performance of the internal audit function.

Internal auditors are expected to have a constructive working relationship with the management and should be in constant communication with the external auditors and BNM on areas of common interests. The internal audit department should have an audit charter, an audit plan, audit manual, audit programme and internal control questionnaires (ICQ) in place. The core function of an internal audit department is to perform an independent appraisal of the financial institution’s activities as a service to the management. The internal audit function plays an important role in helping the management to establish and maintain the best possible internal control environment within the financial institution. A sound internal control environment would ensure the financial institution’s compliance with legal and regulatory requirements, the safeguarding of assets, adequacy of records, prevention or early detection of frauds, material errors and irregularities and efficiency of operation.

2.3. Shariah Audit Planning

In audit environments, audit planning has become a major activity performed by auditors in order to achieve the effectiveness of the audit report, gain audit performance, and enhance audit success. The audit planning is designed to allow the auditor to conduct and evaluate business risks and develop a specific audit program and scope to test in the audit process. The auditors with greater audit planning are likely to generate more efficient audits that encourage them to maintain the competitive audit planning that could be significant to ensure the audit’s efficiency, excellence and effectiveness (Ratanasongtham and Ussahawanitchakit, 2015).

Shariah audit would be effective with proper planning. Shariah audit planning is necessary to ensure that the audit will be performed in an effective manner, while helping the to keep the audit cost-reasonable. Audit planning serves as terms of reference amongst the parties in the audit exercise and will be referred in cases of misunderstanding with the clients (Shafii *et al.*, 2015). Based on the Shariah governance framework (2011), the process of Shariah auditing should include:

- i. Understanding the business activities of the IFI to allow for better scoping of an audit exercise;
- ii. Developing a comprehensive internal audit programme or plan which includes developing the objectives, the scope, personal assignment, sampling, control and duration as well as establishing proper audit processes, policies and procedures of IFI's operation;
- iii. Obtaining and making reference to relevant sources including the SAC's published rulings, Shariah Committee's decisions, fatwas, guidelines, Shariah audit results and internal Shariah checklist;
- iv. Conducting Shariah audit on a periodical basis, communicating the results of any assessment or findings arising from the Shariah audit to the Board of Directors, Audit Committee and the Shariah Committee; and
- v. Providing recommendations on the rectification measures taken as well as following up on the implementation by the IFI.

Htay *et al.* (2012) described three main stages in planning that include the understanding the business of the takaful operator that is necessary for the auditors to be able to identify the techniques, resources and scope of audit. In turn, the auditors will design the audit plan and program. Understanding the nature of business will help the auditor to identify Shariah risk areas, identify the internal Shariah-compliant control mechanisms, generate the right questions and evaluate the answers, forecast unexpected Shariah non-compliance transactions and develop a proper audit plan. Once the auditor has understood the nature of business, only then, the determination of appropriate techniques to obtain data and information could be determined. Nature of business identification too, will shed light on the types of resources needed to complete the undertaking. For audit scoping exercise, it has to be reasonable and following the industry's best practices. Currently, there are inconsistencies in Shariah audit practices in terms of the audit scope (Ab. Ghani and Rahman, 2015). This is research, as highlighted, aimed to shed some light on agreeable scope of Shariah audit.

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
- iv. Developing the audit plan and programme

Lahsasna (2016) highlighted that by understanding the type of business, only then the auditor can decide on the approaches to be used. The auditor should also have a full understanding of all essential elements, pillars and conditions of each Islamic financial contract utilized in the current Islamic finance business. Once the auditor has understood the IFI business, the relevant techniques, the scope of audit, only then, they are able to design a proper audit plan.

There are a few steps to be performed by the auditor in order to eliminate the possibility of understating the audit risk (Hanefah *et al.*, 2011). The first step is to obtain an understanding of the IFI and its environment. This is to help the auditor in assessing the risk of material misstatement or weaknesses to set the scope of the audit. Next, the auditor should identify risks that may result in material misstatement and evaluate how IFI responds to those risks. When the auditor has evaluated those risks, he or she should obtain evidence of management's action towards those risks. Only then the auditor can assess the risks of material misstatement and determine specific audit procedures. Finally, the auditor will evaluate the results and issue the audit report.

From the research problem discussed, on the lack of leads and references on Shariah audit planning, this study is conducted to address the following research question:

RQ 1: How is the planning process in Shariah audit conducted by the Takaful Operator?

RQ 2: What are the challenges that emerge in the planning stage?

III. Research Methodology

This study conducts a cross-sectional, case-based field study comparing the planning processes in Shariah audit for three takaful operators in Malaysia. A case study is an empirical enquiry to investigate facts in their context, and states that its unique strength is its ability to deal with various pieces of evidence (documents and interviews), and to detect missing constructs (Yin, 2003). Three takaful operators were selected in this study. The backgrounds and characteristics of the takaful were shown in Figure 3.0. These three takaful companies were selected because of their similarities as they also provide conventional insurance services. Hence, the comparison can be made whether they are doing a separate audit for takaful or they just conduct the audit at the group level.

In this study, interviews were the primary source of information gathering technique. In addition, data was gathered from documents provided by the interviewees during the

interview process. Three auditors conducting the audit process from each takaful were chosen. The details of interviewees are shown in Figure 3.1. The interviews were conducted by the researcher via face-to-face sessions. The general questions focused on how the auditor conducted the planning process and the challenges faced by the auditors. A semi-structured interview approach was used, starting with a set of questions that was extended according to the circumstances. Table 1 features information about the background of the takaful operators that the data was collected.

Table 1: Background of Organization

Takaful Operator	Years of Establishment	Background
Takaful Operator A	2006	This company is a joint venture between local and foreign company.
Takaful Operator B	2014	This company is a joint venture between local and foreign company.
Takaful Operator C	2010	This company is a joint venture between local and foreign company.

Sources: Authors

Table 2 presents the details of the interviewees. When reading the results of the case study analysis presented in this paper, readers should refer to the context of the practices based on the background of the Shariah auditors whom had provided the data to the study.

Table 2: Details of Interviewees

Interviewees	Gender	Qualification	Role	Years of Experience in Industry	Years of Experience in Organizations
Interviewee A	Male	Bachelor in Accounting	Shariah auditor	15–20 years	10–15 years
Interviewee B	Male	Bachelor in Accounting and Finance	Shariah auditor	6–9 years	10–15 years
Interviewee C	Female	Bachelor in Accounting	Shariah auditor	3–6 years	3–6 years

Sources: Authors

IV. Findings and Analysis

4.1. Model of Shariah Audit

Table 3 presents the general model of Shariah audit approach being adopted by each of institutions under the study.

Table 3: Models of Shariah Audit practiced by Takaful Operator

Takaful Operators	Shariah Audit Model in Adoption
A	Hybrid
B	Embed all auditors
C	Hybrid

Sources: Authors

Based on Table 3, we can see that Takaful Operator A and Takaful Operator C adapt a hybrid model which means that they do not have any specific Shariah audit department, but they have one specific Shariah auditor in the internal audit department. Interviewee A stated:

“...all these while, I’m the only one who is responsible for Shariah audit. But, when I went for Shariah audit, other team members will support me. Like last year, I went to Indonesia to conduct their Shariah audit as they had never done a comprehensive Shariah audit before...”

He is also the one who developed the Shariah audit manual for his organisations and in fact he is the only Muslim in the department. The auditor does not have any Shariah background but he did attend the course to enhance his knowledge on Shariah. It shows that Takaful Operator A is always engaged with SC along the process of the Shariah audit. He stated that:

“I am an accounting student and I don’t have any Shariah background. But as a Muslim, we should be sensitive to any issues with regard to Shariah. We must have common sense. We need to recognize any potential Shariah non-compliance risk and table it to SC first...”

For Takaful Operator B, it adopts the second model which embeds Shariah audit function within the internal audit department. Internal audit department will engage will refer to the Shariah department when they have any Shariah issues. As mentioned by Interviewee B:

“I am in Internal audit for this Takaful Operator and there are only two staff in this department. I will report to Chief of Internal Audit at Group level. And some of my colleagues in the insurance internal audit will support me whenever I’m doing the internal audit for Takaful operation or whenever we have inadequate resources. However, I’m the one who is responsible for Shariah audit, for example on assessing the risk or in terms of Shariah compliance.”

Based on the statement, it is evident that the Shariah auditor also performs the internal audit for the Takaful Operator. The auditor will also refer to the Shariah department in order to determine Shariah non-compliance risks.

Meanwhile, for Takaful Operator C, a hybrid model is used. Interviewee C stated that:

“In my organization, I am an audit associate or Shariah auditor and my reporting line is to Chief of Internal Auditor. My background is in accounting , but I did my foundation in Takaful and another additional Sharia courses form IBFIM. This is among the requirements of the company before you are qualified to perform Shariah audit...”

4.2. Shariah Audit Process

4.2.1. Case study A

From the interviews, Shariah audit process undertaken by takaful operator A were identified. The themes of the processes are presented in Table 4.

Table 4: Details on Planning by Takaful Operator A

Step as described in available guideline	Description	Description by interviewee
Understand the organization’s strategies, business objectives, risks, and risk management processes.	Reviewing the results of any risk assessments that the management may have performed from the management at various levels throughout the organization, as well as from the board and other stakeholders	Template set by Group Head Office (GHO), set a weight-age and justification
	Identifying and assessing the risk that may result in material misstatement	
Identify techniques, resources and scope	Deciding on the audit universe	Integrated audit
	Determining the audit procedures	
Preparing audit plan and programme	Identifying key activities to be carried out, the objectives and techniques	Risk-based assessment-control testing matrix (template from GHO)
	Audit programme shows the detailed steps to audit	Reports to SC first, then only to BOAC

Sources: Authors

Takaful Operator A has been established since 2006. The first full scope ever for Shariah audit was performed in 2015 which is 10 years after its establishment. On top of that, the institution engaged with an external audit firm as an expert matter in performing the Shariah audit function. Generally, all the audit procedures have been determined by their Group Head Office (GHO) and the auditor used the same process and embedded this with Shariah audit scope for Shariah audit purposes. The audit universe has also been determined by GHO. Using the template by GHO, the auditor will map the risk with the department with high risk and the area that has not been previously covered. The auditor also needs to set the weightage for every risk and provide justification.

For each of the scope, the auditor establishes the term of reference and they have identified several scopes to be covered; business, underwriting claims, risk servicing, product development and Shariah development. The key Shariah risk area will be determined for each scope. Then, the auditor will work on their audit program. Their audit programme is called Control Testing Metrics and it is risk-based audit. Respondent A claimed that:

“Internal audit process here is very well structured based on his 13 years of experience. Not like the organisations that I have worked before... everything must have its working paper and the working paper is very clear and structured...”

The annual audit planning will be performed every year and will be tabled to the Board of Audit Committee (BOAC), but before that, it will be tabled to the Shariah committee first and it will be open for discussion and suggestions.

4.2.2. Case study B

Table 5: Details on Planning by Takaful Operator B

Steps as described in available guideline	Description	Description by interviewee
Understand the organization’s strategies, business objectives, risks, and risk management processes.	Reviewing the results of any risk assessments that the management may have performed from the management at various levels throughout the organization, as well as from the board and other stakeholders.	Risk assessment by auditor and get all inputs from the client
	Identifying and assessing the risk that may result in material misstatement	Refer to the Shariah department for any concern

Identify techniques, resources and scope	Deciding on the audit universe	Audit universe set by group level. Currently there are 10 audit universe; 1) operation, 2) IT, 3) Compliance, 4) Risk management, 5) Shariah, 6) Finance, 7) Sales, 8) Bancatakaful, 9) Direct marketing channel, 10) Company secretary
	Determining the audit procedures	Each audit universe has its own scope
Preparing audit plan and programme	Identifying key activities to be carried out, the objectives and techniques	Reports directly to BOAC, then only notify SC
	Audit programme shows the detailed steps to audit	

Sources: Authors

Takaful Operator B obtained the license in 2012, and started its operation in 2014. Interviewee B stated that:

“...If you are talking about Shariah audit process, the process is similar to the conventional audit, it just embedded all Shariah requirement. The same goes with the planning process...”

In planning, there would be audit assignment and annual audit planning. The annual audit planning will be shared with BOAC and SC. SC is just for notification as in SGF, and all approval must be done by BOAC and there is only a dotted line to SC. We just take note on any issues suggested by SC but we are not obliged to follow all the suggestions because we solely report to BOAC.

In addition, the findings from the interview found that Shariah audit is performed using the risk based assessment. Risks will be assessed according to the audit universe. Audit universe has been set up by the Global company. Currently, there are 10 highlighted activities in the audit universe namely the operation, compliance, risk management, IT, Shariah department, finance, sales, bancatakaful, direct marketing and company secretary. By having audit universe, only then the auditor can determine the robustness of the conducted audit. The scope of audit will be based on the audit universe. The notification letter will be submitted to the auditee after the determination of the scope.

4.2.3. Case study C

Table 6: Details on Planning by Takaful Operator C

Steps as described in available guideline	Description	Description by interviewee
Understand the organization’s strategies, business objectives, risks, and risk management processes.	Reviewing the results of any risk assessments that the management may have performed from the management at various levels throughout the organization, as well as from the board and other stakeholders.	Known as pre-planning stage
	Identifying and assessing the risk that may result in material misstatement	Produces the audit information request
		Audit finding form and risk assessment(based on client’s self-assessment)
Identify techniques, resources and scope	Deciding on the audit universe	Determines the audit scope
	Determining the audit procedures	
Preparing audit plan and programme	Identifying key activities to be carried out, the objectives and techniques	Audit programme-analyses the risk and possible internal control
	Audit programme showing the detailed steps to audit	Issues term of reference to the client
		Reports to BOAC, then notifies it only to SC

Sources: Authors

Takaful Operator C started its operation in 2010. Interviewee C also stated something which is quite similar to interviewee B. She stressed that:

“...don’t think Shariah auditing is like another side of audit. It is the same and it is like a normal internal audit. It is just a compliance review. There is nothing fancy about it, professionals would always say that...”

From Table 6, we can see that the first stage is the pre-planning stage. Pre-planning is the stage where one needs to understand the business operation and risk profile. During pre-planning, there are a few documents that need to be prepared by the auditor known as Audit Information Request (AIR). This is the documents that they need to request from the auditee such as key responsibilities in the department, function, key performance indicator, minutes of meeting and other related documents.

Next, they will have a pre-planning meeting to notify the auditee that they will conduct the audit. Basically, each department will assess their own risk and the auditor will review their self-check. The main objective of pre planning is to familiarize the auditor to the auditee. Then, an audit programme will be developed and known as ‘Risk Compliance Matrix.’ The audit programme will be based on the risk assessed and the expectation control from the risk. Form the expectation of control, the auditor will then perform substantive tests. A kick-off meeting will be set up to discuss further with the auditor team on the scope and resources for the audit. The ‘term of reference’ will be issued to the auditees to let them know that they are going to be audited.

Based on the discussion above, there are several differences and similarities that can be highlighted between the three case studies. The summary is provided in Table 7.

Table 7: Comparative Analysis of Shariah Audit Exercise adopted by Takaful Operators under the Study

Elements	Takaful Operator A	Takaful Operator B	Takaful Operator C
Model used	Hybrid	Embed all auditors	Hybrid
Current framework/ guideline for Shariah audit	SGF, IPPF, Own manual	SGF, IPPF, Own manual	SGF, IPPF, Own manual
Annual planning reporting line	SC, then BOAC	BOAC	BOAC
Risk assessment	Auditor	Auditor	Client self-assessment
Audit programme	Risk based audit	Risk based audit	Risk based audit
Engagement with SC during planning	Yes	None	None

Sources : Authors

4.3. Challenges Present during Planning of Shariah Audit Exercise

The challenges during planning can be categorized into few themes which can be elaborated further. The first one is in term of developing a workforce strategy which include the issues of difficulties of staffing shariah audit department. For instance the issues of having not enough qualified candidates with the unique set of skills required to be the competent shariah auditor. As the consequences sometimes the auditor faces the problem of confusion in recognizing the shariah risk issues or operational risk issues. The issues of competency amongst the shariah auditors have been debated a lot in the previous study. R1, admitted that he is not so competent in terms of Shariah and as the solution he always refer to the Shariah committee. R2 mentioned:

“the challenges is in term of competencies. Because in my opinion nobody can expert in all disciplines... very rare... but for me, I prefer somebody with accounting or finance background to become shariah auditor...”

The findings is consistent with the opinion of the prominent Shariah scholar, Dr. Daud Bakar. Dr. Daud, during his speech in the Shariah audit seminar series, highlighted that it is imperative for Islamic financial Institutions to have competent Shariah auditors with relevant knowledge and sets of skills (Hisyam, 2018). He added that Shariah audit is about having an auditing framework that is not about ‘fatwa auditing’ but rather about process auditing. It concerns with having an auditor who can audit and know about the Shariah compliance process and activities of the Islamic financial Institutions.

On top of that, the challenges also comes from audit delay which caused by several reasons; underestimation of efforts is needed to complete the audit, excessive amount of time spent to execute audit procedures due to inefficiencies , inadequate communication or engagement within the team and inappropriate, inadequate or ineffective audit techniques or approaches used. R3 then verified that:

“challenges always come from delay. Why our audit always got delayed? Unplanned activities, audit delayed or delays from improper planning or using inappropriate audit techniques...”

Another challenge been highlighted by the interviewees is building in internal audit plan. Building internal audit plan is very crucial. The most important element of the planning and scoping process is to ensure that there is sufficient coverage of the audit universe and that no material items are missed. As claimed by R1:

“Sometimes during audit planning, we might oversight on certain things...but we have to justify...”

Apart that, the challenges in communicating audit results or audit finding to the stakeholders. Sometimes, the auditor might have different opinion with shariah committee or audit committee. For example in term of audit finding. Not all audit finding will be agreed by both parties. At the same times, auditor has to fulfil the requirement of regulators. R1 revealed that:

“major challenges is how we want to defend our findings...actually it is more to discussion.so here is about meeting the expectation of shariah committee, audit committee and regulators...”

R3 also stated that:

“audit disagreement also might happened during communicating audit findings...so when it comes to audit disagreement, everyone have to find for justifications...”

Based on the challenges describes by the interviewee, as Shariah auditors, they must take such challenges into account and try to find solution to overcome the challenges to develop Shariah audit profession to ensure the professionalism of this profession.

5. Conclusions

The findings of the research indicate that the Shariah auditing process was conducted by replicating the conventional framework due to the unavailability of a specific Shariah audit model. Hence, the takaful operators tend to have a restrictive focus on the financial audit whereas Shariah audit should have a wider scope to cover. Most of the takaful operators in Malaysia are currently practicing combined audit. As the consequences, Shariah audit is not done thoroughly as they might not be able to cover the scope as what they are supposed to cover because they focus on operational issues and the Shariah scope is performed only when Shariah issues arise, and not comprehensively on measures of internal control within the takaful institutions.

Another issue is the competency of the Shariah auditor. In order to have a competent Shariah auditor, the auditor must have an integrated background between Shariah knowledge and accounting/finance knowledge. Shariah auditors without the Shariah background will face the problem of finding Shariah-related risk issues when performing the audit and thus leading to the possibility of understating the identification and analysis of Shariah non-compliant risk. On the other hand, an auditor without accounting/finance background might not be able to perform the duty diligently as they do not have the skills of auditing. The best solution is to have an auditor with an integrated background or the team of auditor with an integrated background.

During the planning stage, there should also be a strong engagement between the Shariah committee members and the Shariah auditors. When the auditors are performing the annual Shariah audit planning, the auditor must table it to the Shariah committee, before seeking the approval by the Board of Audit Committee. Shariah committee could deliberate and provide their recommendations at the planning stage. This exercise could significantly enhance the effectiveness and efficiency of audit as relevant issues and scopes are being pursued at the first attempt. Lack of communication between the said stakeholders will risk the audit exercise to be inadequate, rendering to further audit evidence collections of additional scopes to be performed. However, in reality, most of the auditors table their annual Shariah audit planning

to the Board of audit committee and then only the auditor will notify the plan to the Shariah committee. When this happens, the Shariah committee members has limited role to deliberate on the plan as it has been approved by the Board of audit committee.

The analysis of the study is important in enhancing the current planning process and the Shariah audit process as a whole. This study emphasises the planning process and covers only the takaful industry. Future researches could seek to examine the whole Shariah auditing process starting from the planning stage until the reporting stage and select different case studies with different characteristics. Future research could also evaluate the effectiveness of audit practice in the finance industry especially the insurance industry.

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