

Shari'ah Audit in Islamic Financial Institutions: The Postgraduates' Perspective

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Abstract

Islamic finance industry is claimed to be one of the fastest growing industry and allegedly immune to any financial turmoil. With a growth of between 15 to 20% for the past decades, it surely provides an interesting avenue for research. One aspect that is still under-researched is the shari'ah audit. In the absence of a proper framework and standards, this could dampen the future of the Islamic finance industry. There is an impending need for the Islamic financial institutions to provide reasonable and sufficient assurance that they have really followed the shari'ah through shari'ah audit. The absence of proper shari'ah audit framework is worrying. This study is embarked to get the perspectives of the postgraduate students on shari'ah audit in a country relatively new to Islamic finance industry. Postgraduate students from two universities are chosen as samples. Survey questionnaires are distributed by hand and the results are presented using frequency tables. It is found that they have a low level of awareness and understanding of the term and concept of shari'ah audit. They are also in vague as to whether the shari'ah audit is the same as conventional audit. Moreover, they feel that the Islamic financial institutions are not doing enough to promote shari'ah audit. They agree that the mass media has a big role to play in promoting shari'ah audit. Finally, they agree that the shari'ah audit has a very good potential to be developed in the future.

Keywords: Islamic financial institution, Islamic finance, shari'ah audit, shari'ah auditor, shari'ah supervisory board

1. Introduction

Islamic finance has experienced rapid growth in the past four decades. The assets managed by the Islamic financial institution are forecasted to exceed US\$1 trillion dollars by the year 2011 (Yaacob, 2012) and US\$1.6 trillion this year (Global Islamic Finance, 2012, p.1). In addition, there are now more than six hundred (600) Islamic financial institutions in more than seventy five countries. This is rather astonishing, with approximately US\$150 billion in the midst of 1990s, it increased to US\$1.1 trillion in year 2011 (Global Islamic Finance, 2012, p.2). The Islamic finance industry annual growth is from 15% to 20% annually for the past decades easily surpassing the rate of the world economic growth (Rammal, 2010). Hence, it is crucial that the Islamic finance industry should have a proper 'check and balance' mechanism in the form of auditing which suits the objectives and missions of its formation, the '*maqasid e shari'ah*' (to achieve the objectives of the shari'ah).

Auditing has always been an important cog in the corporate governance machinery in modern organizations (Sultan, 2007). It forms important elements in the process of securing corporate accountability. It also enhances stakeholder's faith in the stewardship of the company. Unlike conventional statutory financial audit which requires auditors to express their view that the financial statements are prepared according to GAAP and relevant financial reporting standards; the auditing of Islamic Financial Institution (IFI) cover a wide range of scope. This is because auditors/shari'ah auditors must attest that the management has complied not only with relevant standards but also the shari'ah framework in all of the transactions to achieve the *maqasid as shari'ah*. According to Haniffa (2010) this is important to protect and improve the condition of human life in all dimensions.

In other words, the auditing of Islamic financial institutions is not only confined to the statutory financial audit,

but must include the shari'ah review. AAOIFI's Governance Standard for IFI no. 3 defined shari'ah audit as, "the primary objective of the internal shari'ah 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 shari'ah rules and principles as determined by the IFI's Shari'ah Supervisory Board (SSB)". Hence, auditing of Islamic financial institutions can be defined as "a systematic process of objectively obtaining and evaluating evidence regarding assertions about religious and socioeconomic actions and events in order to ascertain the degree of correspondence between those assertions and those of the applicable financial reporting framework, including the criteria specified based on shari'ah principles as recommended by the Shari'ah Supervisory Board (SSB) and communicating the results to all interested parties" (Haniffa, 2010) basically the stakeholders of IFIs.

This study also links the shari'ah audit to the institution of *Hisbah*. *Hisbah* is one of the earliest economic institutions in Islam. According to Islahi (2006) it is "a religious institution under the authority of the state that appoint people to carry out the responsibility of enjoining what is right, whenever people start to neglect it and forbidding what is wrong, whenever people start to engage in it". The *Muhtasib* (member of the *Hisbah* institution) is people who have certain knowledge and qualification in shari'ah and economics, who are able to advise and give opinion on certain matters or issues in conflict with the code of conducts and the shari'ah (Yaacob, 2012). Lewis (2005) states that the code of conduct is an approved code of social behaviour by the Prophet (peace be upon him) and later his companions, when the Islamic community expanded in the early days of the Islamic state, to institutionalize, perpetuate and preserve the codes and ensure compliances with the shari'ah principles. It is based on the concept of enjoining the good and forbidding the evil (*al 'amr bil ma'ruf wal nahyu 'an al munkar*). The study argues that the shari'ah auditor, having a similar role to the *Muhtasib* is accountable as in the concept of '*taklif*' (accountability or responsibility), to ensure that the IFIs are strictly following the Islamic shari'ah (see Nahar & Yaacob, 2011).

Although the *Hisbah* institution has been in existence since the early days of the Islamic state, it has been demolished with the collapsed of the last Islamic *Khilafah* of Uthmaniah in Turkey in the early 1900. The Islamic states were broken up and demarcated into a few countries and had been under colonization. Likewise the term shari'ah audit is also a new term even though modern Islamic banking and finance existed since the 1960s (Yaacob, 2012). In Brunei Darussalam, shari'ah audit has just getting attention from the authorities who realized that the Islamic financial institutions are in a dire need of a different set of auditing in line with the Islamic shari'ah. Kasim, Ibrahim and Sulaiman (2009) are on this line of reasoning arguing that as people are now experiencing a movement along a continuum from a society that trust everything and audit nothing to a society that trusts nothing and audit everything. It is suggested that there is a need to have regular independent shari'ah audit in the Islamic financial institution. However, a newly accepted concept is not without issues and challenges. Thus, it is imperative to overcome the issues and challenges in order to achieve successful implementation of shari'ah audit.

Therefore, the following research questions are formulated for this study:

1. What are the perspectives of the postgraduate students in Brunei on shari'ah audit?
2. Are they aware and understand of the shari'ah audit term and concept?
3. What are their opinions in order to overcome any issues or challenges faced by shari'ah audit?

The objective of the study is to shed light on the postgraduate students' perspective, awareness and understanding of the term and concept of shari'ah audit in Brunei. This study tries to provide some useful insight and later suggest or recommend on how shari'ah audit can be further improved. This is important as Islamic banking and finance in Brunei is still at its early stage and it is better to tackle the problems earlier rather than to wait for several years to come and then finding some solutions for it. This study is significant because it helps to identify any issues and challenges faced by shari'ah audit in the context of Brunei Darussalam. This study argues that the postgraduate students' awareness and understanding of shari'ah audit is very crucial. It is important as they are the future generation who will take over the leadership of the country and contribute to the skilled workforce especially in Islamic financial institutions. They're also responsible to help improve in the future development and implementation of shari'ah audit in the country. Brunei Darussalam is having a problem of very limited workforce. So, these postgraduate students represent a significant human capital for the future of the nations.

However, there are some limitations for this study. The respondents are only from two higher learning institutions which offer postgraduate programs, so the sample is limited. Secondly, insufficient literature on shari'ah audit and virtually none in the context of Brunei Darussalam pose a significant challenge to the study as

the postgraduate students get little or almost no information with regards to shari'ah audit.

The study is organized as follow: Section 2 discusses the literature and followed by Section 3 on Conceptual Framework. Next, Research Methodology is presented in Section 4. Results of the study are presented in Section 5 and finally Section 6 concludes and some future researches are recommended.

2. Literature Review

Shari'ah audit in Islamic finance is still an under-researched area. This is evidence by the lack of literature on the subject. Several studies (Haniffa, 2010; Rahman, 2008; Rammal, 2009; Yaacob, 2012) are mostly theoretical and only a few are empirical (Kasim *et al.*, 2009). This section divided into four sections. First, the shari'ah audit scope is discussed. Second, shari'ah audit framework is presented. Third, a discussion on the shari'ah auditor's qualification and the last section is on the shari'ah auditor's independence. Finally, a summary is presented.

2.1 Shari'ah Audit Scope

Kasim *et al.*, (2009) assert that, *"the lack of expertise, specification and definition on the scope of shari'ah auditing practice pose problems which cause a gap exist between the 'desired' and the 'actual'"*. In the conventional auditing, the audit scope is clearly stated as it becomes a guideline for the auditors to be objective in their evidence collection. Otherwise, the audit assignments will become longer and resources such as time and money are wasted because there is no clear scope for the audit work. Shari'ah audit is claimed as a social function; therefore, the scope should be wider encompassing 'social behaviour' and performance of organizations including their relationship with all the stakeholders. For example, in zakat payment, it is an obligation of the IFI to pay zakat and distribute or paid to the respective authority.

The absence of shari'ah audit scope has left the industry in the dark. It seems that the Islamic financial institutions themselves are not taking the right steps to ensure standard setters and regulatory bodies to seriously look into this. At the moment, the scope is depending on the shari'ah advisors and the Shari'ah Supervisory Board who oversees the shari'ah review or shari'ah audit. Rahman (2008) supports this stance where he states that *"the Islamic financial services industry currently has not fully hand systematically undertaken shari'ah audit, i.e. no systematic review has been comprehensively undertaken to ensure proper sharia compliance. Therefore, shari'ah audit should involve systematic review of the operational aspects of the Islamic financial institutions. These include the examination of the policies and procedures of the Islamic financial institutions, such as product manuals, operational processes and contracts. It also needs to review the organizational structure to ensure if it is feasible to undertake a shari'ah compliant activity"*

In addition, he also mentioned about developing a *"systematic and thorough audit programme, i.e. a list of audit procedures for an entire shari'ah audit, including legal documentations for operational procedures and so on. It is a programme which is design to audit a particular area of the overall scope of the audit exercise, and can be developed to cover variety of Islamic financial products and services. The shari'ah audit programme needs to be written in the language that can be easily understood by potential stakeholders. Their feedbacks are required after a period of testing the shari'ah audit programme in actual practice"*.

AAOIFI's Auditing Standards (2010) emphasizes that the objective of shari'ah audit is *"to enable the auditors to express an opinion as to whether the financial statements are prepared, in all material aspects, in accordance with the fatwas, ruling, guidelines issued by the Shari'ah Supervisory Board of the Islamic financial institutions, the accounting standards of AAOIFI, international and national accounting standards and practices, and relevant legislation and regulations applied in the country where the Islamic financial institution operates"*.

2.2 Shari'ah Audit Framework

Most of the Islamic financial institutions are using the conventional audit framework in the absence of a shari'ah audit framework. Majority of the respondent in Kasim's study agreed that the shari'ah audit framework must be different from the conventional audit framework. Furthermore, they agreed that the regulatory body should be responsible to formulate the framework and followed by all Islamic financial institutions operated especially in Malaysia. A study by Volk and Pudelko on Islamic finance in Europe propose four attributes for the framework, (1) Demands condition; (2) Supply condition; (3) Regulatory conditions; and (4) Societal conditions (Rammal, 2010). They mention that the framework should be able to help spur the growth of Islamic banking market in the European countries.

2.3 Shari'ah Auditor's Qualification

According to the AAOIFI Auditing Standards (2010), *"the auditor shall be knowledgeable about Islamic shari'ah rules and principles. However, he/she would not possess the same level of knowledge as that of shari'ah*

supervisory board members and thus the auditor shall not be expected to provide interpretation of these (Islamic) rules and principles. The fatwas, rulings and guidance issued by the SSB form the basis on which the auditor considers whether the IFI has complied with the Islamic shari'ah rules and principles. The auditor shall also use this as a basis for concluding whether the financial statements of the IFI have been prepared in accordance with the Islamic shari'ah rules and principles”.

Despite all this, Kasim *et al.*, (2009) in their study mentioned that there is still lack of people who have both shari'ah and accounting qualifications. These qualifications are important in determining the vision and mission of Islam is preserved within the Islamic financial institutions (Yaacob, 2012). This is agreed by Rammal and Parker (2010) who argued that “*in order to fulfill the requirements of the State Bank of Pakistan, the individuals who meet the specified “fit and proper criteria” must be trained in religious education (Dars-e-Nizami curriculum offered by Madrasas). This is because those who are educated in religious education, may not be well-versed in banking and finance knowledge, thus, requires them additional training time for such education”.*

Moreover, there is still an on-going debate on who should be conducting the shari'ah audit. Kasim's study found that some of the respondents prefers the shari'ah auditing practices to be carried out by people who are qualified in shari'ah only. Others want the shari'ah audit to be the responsibility of the internal auditors or the shari'ah department of respective IFIs or shari'ah committee members. According to PricewaterhouseCoopers (2011), the shari'ah audit function is to be performed by internal auditors who have adequate shari'ah related knowledge and skills. Their ultimate goal is to ensure a sound and effective internal control system for shari'ah compliance. Internal Auditor may also engage the expertise of Islamic financial institutions shari'ah officers in performing that audit so long as the objectivity of the audit is not compromised. Islamic financial institutions may also appoint an external party to conduct a shari'ah audit on their banking operations.

AAOIFI in its Auditing standards (2010) requires an external auditor to obtain sufficient and appropriate evidence that support the external auditor's opinion to give a reasonable assurance that the Islamic financial institution has complied with all the Islamic shari'ah rules and principles including any *fatwas*, rulings and guidance issued by the Shari'ah Supervisory Board. Hence, the auditor is responsible for forming and expressing an opinion on the financial statements, as explained by the Governance Standards for Islamic financial Institutions (GSIFI, No.1).

The International Financial Standard Board (2006) in their statement regarding shari'ah auditing mentioned, “*the Audit committee of institutions offering Islamic financial services should use their best effort in ensuring that the external auditors are capable of accommodating ex-post shari'ah compliance reviews (relying ,where appropriate on work carried out by internal auditors or shari'ah reviewers, within their terms of reference. This, where possible, the audit committee and the internal auditor or shari'ah reviewer shall work closely with the internal auditors to enhance the external auditors capabilities for conducting such shari'ah compliance reviews as part of their audits. Most institutions offering Islamic financial services have their own internal auditors or shari'ah reviewer who carries out this review, while some have their Shari'ah Supervisory Board or shari'ah compliance review officer to conduct it”.*

2.4 Shari'ah Auditor's Independence

As stated by Kasim *et al.*, (2009), in actual practice, a heavy dependence on the internal auditors or the management of the shari'ah unit is placed to carry out shari'ah audit in Islamic financial institutions. Self-review threats may occur as there is no clear separation of duties been determined. Thus, even though the respondents are clear of what is actually desired of independence, but in actual facts they cannot avoid to be relaxed on the principle of independence due to unavoidable circumstances. This lead to full potential of an audit cannot be realized if they are not wholly and truly independent, as the social purpose (benefits to the *Ummah*) will be frustrated”.

In addition, Rammal (2009) also raised similar concerns of shari'ah advisors potential conflict of interest. This is due to the fact that in some countries, shari'ah advisors are seen as internal shari'ah auditors rather than external auditors are permitted to be employed by more than one financial institution. The permission to act as shari'ah advisors for more than one company or financial institution poses threats to the independence of the advisors cum auditors. One senior shari'ah advisor is on the shari'ah advisory panel for more than ten institutions. Perception of independence is threatened here as people may question the motivation of financial rewards as compared with objectivity in issuing *fatwas*, ruling and guidelines (Rammal & Parker, 2010; Yaacob, 2012).

Therefore, indicated that to produce competent and independent shari'ah auditors, the shari'ah auditors must understand the criteria used in a shari'ah audit and must be competent to discern the types and amount of evidence to accumulate before concluding the audit. The auditor's must also have an independent mental attitude,

where their competence is of little value if he or she is based in the accumulation or evaluation of evidence (Rahman, 2008). Although absolute independence is impossible, shari'ah auditors must strive to maintain a high level of independence in fact and in appearance. In the case of internal shari'ah auditors, (who are employees of the Islamic financial institutions), they usually report directly to the top management, keeping them independent of the department that they audit.

2.5 Summary

Generally, they are still a few unresolved issues in shari'ah audit in terms of its scope, framework, shari'ah auditor's qualification and their independence. It may give an unhealthy image to the Islamic financial institutions credibility. They should be resolved immediately as it may also threaten the confidence of the public in Islamic financial institution's product and services compliance to shari'ah rules and guidelines. This study also argued that shari'ah audit, as a social function, is very important to achieve the *maqasid as shari'ah*. The shari'ah auditors should be the one with adequate knowledge, capabilities and independent to carry out the audit. They must have been trained in accounting and finance and auditing as well as shari'ah and *fiqh* (Yaacob, 2012).

3. Conceptual Framework

Due to the need to ensure proper adherence to the shari'ah audit principles in operations and activities, the role of each of key actors in the auditing of an Islamic financial institutions is essential. First is the Audit and Governance Committee of the IFIs. This committee is responsible for the following functions, internal control system, and use of the restricted investment accounts, shari'ah compliance, interim and annual accounts and accounting and auditing practices. Second is the Shari'ah Supervisory Board (SSB). They are responsible to issue *fatwas*, formulate policy according to the shari'ah, and give shari'ah endorsement to product and services of the IFI; their basic role is as an approval or stamping authority. Third, the internal auditors are responsible to conduct internal audit and to ensure the IFI comply with the shari'ah and all transaction and contract are executed within the shari'ah framework. Some IFIs are also having their shari'ah officers as a unit cooperating with the internal auditors or they are part of the internal auditors. Fourth, the external auditors are responsible to give their opinion whether the transactions and contract are within the shari'ah policies, rulings and guidelines. Both the internal and external auditors are also responsible to test for IFI's shari'ah compliance.

Apparently, the stakeholders are also one of the important actors in Islamic finance. Iqbal and Mirakhor (2003; 2004) and Iqbal and Molyneux (2005) as cited by Dusuki (2006) strongly opine that the stakeholders are the one whose property rights are at stake or at risk due to voluntary or involuntary actions of the firm. Both argued that basically it comprises any group of people or individuals with whom the firm has explicit or implicit contractual obligations are qualified as stakeholders even though the firm may not have formal contracts with them through mutual bargaining. However, this study argued that there stills a vague understanding of how the shari'ah audit should work. Unresolved matter in terms of the shari'ah audit scope, framework and independence still need priority attention from all actors in Islamic finance. An in-depth understanding on how the shari'ah audit should work is vital. This is important to ensure the sustainability of the Islamic financial institution in the long run, running within the shari'ah framework and achieve the *maqasid al shari'ah*.

4. Research Methodology

The research method utilized in this study is of quantitative approach. A survey questionnaire based on previous literature (for example Kasim *et al.*, 2009; PwC, 2011) is developed. The survey questionnaire is argued to be an effective tool to get opinions, attitudes and descriptions as well as capturing cause and effect relationship (Ghauri and Gronhaug, 2010, p. 118). It will also help creating awareness and disseminate information. Primary data for this study is collected using the questionnaire and secondary data is collected from published articles and reports, books and newspaper.

4.1 Research Design

The questionnaire is divided into three sections and each section contains questions pertaining to the objectives of the study and to answer the research questions. The population of this study is postgraduate student in two universities in Brunei, namely University A and University B. The study used convenience sampling or purposive sampling to choose the samples. As the number of total postgraduate students is not large, the questionnaire is administered by hand and based on voluntary participation. A total of forty (40) postgraduate students are chosen and given the questionnaire. The first section is designed to collect demographic data of the respondents. In the second section, ten (10) questions are asked on their knowledge and awareness of shari'ah audit. In this section, the question given is of close-ended types. There are a few questions where the respondent can choose to answer more than one. Lastly, in the third section, there respondents are asked on their opinions

regarding shari'ah audit in Islamic financial institution in Brunei. There are twenty three (23) questions in this section. The answer is given in the form of Likert scales of five, the ranges are (1) strongly disagree; (2) disagree; (3) Neutral; (4) agree; and (5) strongly agree. Further details regarding the questionnaire are given in Appendix 1 (including a sample questionnaire).

4.2 Data Collection

A total of forty (40) questionnaires are distributed and each of the returned questionnaires is screened properly for errors, incomplete or missing responses. Thus, the unreturned and the incomplete questionnaire are deducted from the analysis. Only complete and valid questionnaire are used for the final analysis. Thirteen (13) questionnaires are deemed as null and void. As for the final results, a total of twenty seven (27) out of forty (40) are considered valid, which give a response rate of 67.5%, which is considered quite high and valid for a simple statistical analysis.

4.3 Data Analysis

This study uses the frequency distribution to examine the pattern of responses to each of the variables under investigation. Next, the categories are listed and the number of observation is counted (Ghauri and Gronhaug, 2010, p.153).

5. Results

5.1 Demographic Data

Table 1. Distribution of respondents by gender (n=27)

Gender	Frequency	Percent
Male	2	7
Female	25	93

Table 1 shows the valid number of respondents are 27 (n=27). This represents a 67.5% response rate which is arguably adequate for the validity of the study. Out of the twenty seven (27) respondents; twenty five (25) are females representing a 93% of the samples and only 2 males representing 7%.

Table 2. Distribution of respondents by age (n=27)

Age	Frequency	Percent
21 - 30	25	93
31 - 40	2	7
41 - 50	0	0
51 and above	0	0

Table 2 indicates that the samples are biased towards female but this also represents the student population in both universities where up to 70% are females and 30% are males. For age of respondents, it can be observed that majority of the respondents are in the 21 to 30 years of age representing a 93% of the samples.

Table 3. Distribution of respondents by institution (n=27)

Institution	Frequency	Percent
University A	18	67
University B	9	33

Again, only two (2) which are (7%) in the age group of 31 to 40 (Table 2). For respondent according to institution, eighteen (18) (67%) of the respondents are from University A. The other nine (9) (33%) are from University B.

5.2 Awareness and Knowledge of Shari'ah Audit

Table 4. Awareness and knowledge of shari'ah audit (n=27)

Answer	Frequency	Percent
Yes	8	67
No	19	33

The table above shows that majority of the respondents, 70% (19) are unaware of the term shari'ah audit and only 30% (8) are aware or have heard of the term. This indicates that shari'ah audit is not a popular term in the Brunei context where not even half of the respondents are aware of it.

Table 5. Knowing the term shari'ah audit (n=27; multiple answers)

Answer	Frequency	Percent
None	18	55
TV	2	6
Radio	3	9
Internet	3	9
Words of mouth	4	12
Others	3	9

For the following question of whether they have heard the term shari'ah audit and through which channel or media, 55% (18) acknowledge that they have never heard of the term through any mode. 12% (4) know it from word of mouth and 9% (3) hear it through radio, internet and others, including class lectures respectively. Only 6% (2) know the term from the television.

Table 6. Difference between shari'ah audit and conventional audit (n=27)

Answer	Frequency	Percent
Yes	6	78
No	21	22

Table 6 shows that 78% (21) of the respondents do not know the differences between shari'ah audit and conventional audit while only 22% (6) know the differences between the two. The study posits that the high majority may be due to the fact that for those who do not have a background in accounting subject, they would have never encountered auditing before. This is true especially for the students in Islamic studies and social studies.

Table 7. Coverage of shari'ah audit (n=27)

Answer	Frequency	Percent
All activities	15	56
Satisfactory	10	37
Sampling	2	7

Slightly more than half of the respondents, 57% (16) state that shari'ah audit should be performed for every single activity, while 36% (10) agree it should be performed as far as when the auditors feel they are satisfied. A further 7% (2) of the respondents answer that shari'ah audit should be performed using sampling method.

Table 8. Period of shari'ah audit (n=27; multiple answers)

Answer	Frequency	Percent
All year	19	66
End of year	5	17
New product	5	17

When asked when the shari'ah audit should be performed (Table 8), 66% (19) answered that it should be conducted throughout the financial year. A total of 17% (5) answered that it should be done only at the end of the year and another 17% (5) stated that it should be conducted when new product application.

Table 9. Involvement of shari'ah scholar (n=27; multiple answers)

Answer	Frequency	Percent
Audit planning	19	43
Audit report	10	23
Review report	8	18
Not involve	2	5
Facilitate audit	5	11

Table 9 shows the involvement of shari'ah scholars in shari'ah audit. 43% (19) of the respondents think that the shari'ah scholars should be involved in providing general guidance and strategy during the audit planning stage. This is followed by 23% (10) respondents who feel that the shari'ah scholars should assist in the preparation of the audit report and help recommend action plans. An 18% (8) suggest that the shari'ah scholars to review audit report and perform follow up queries with management. 11% (5) think that the shari'ah scholars should facilitate the audit fieldwork process and another 5% (2) state that the shari'ah scholar should not have any involvement in the shari'ah audit process.

Table 10. Shari'ah audit scope (n=27; multiple answers)

Answer	Frequency	Percent
Policies	11	10
Reports and Circulars	8	7
Contract and Agreement	15	14
Process and Procedure	9	8
Marketing	7	6
Human Resource	5	5
Zakat	20	19
Social Activities	8	7
Finance	15	14
Environment	3	3
IT	7	7

For the scope of shari'ah audit, 19% (20) think that zakat calculation and payment needs to be covered in the scope of shari'ah audit. 14% (15) think that contracts, agreements and financial system and reporting are covered in the scope. 10% (11) indicate that the business policies should be included in the shari'ah audit. 8% (9) state that processes and procedures are the scope to be covered while 7% (8) feel that it should cover report and circular and marketing and advertising as well as social activities and contribution respectively. This is followed by a 6% () who think IT system should be covered, where as 5% () add human resource management in the scope. Only 3% choose environmental impact of the IFIs operation to be covered in the audit scope (Table 10).

Table 11. Qualification of shari'ah audit (n=27; multiple answers)

Answer	Frequency	Percent
Accounting and Shari'ah	11	38
Accounting	4	14
Accounting and Shari'ah Certificate	14	48

In Table 11, on the qualification of shari'ah auditors, nearly half, 48% (14) state that shari'ah auditors should have a degree or professional qualification in accounting and a specialized certification in shari'ah audit. 38% (11) mention that the auditors should have both accounting and shari'ah degree. Only 14% feel that the shari'ah auditors should have only accounting degree.

Table 12. Appointment of shari'ah audit (n=27; multiple answers)

Answer	Frequency	Percent
AMBD	18	56
AGM	5	16
New Body	9	28

From Table 12, 56% (18) indicate that the Brunei Darussalam Monetary Authority is responsible to appoint the shari'ah auditors for the IFIS. Another 28% propose a newly established regulatory and supervisory body to dedicate to oversee the practice of shari'ah audit is responsible. 16% (5) suggest that the shareholders of the respective Islamic financial institution should appoint the shari'ah auditor in the Annual General Meeting.

Table 13. Shari'ah audit should be performed by... (n=27; multiple answers)

Answer	Frequency	Percent
Islamic Jurist	11	24
SSB	9	20
External Auditor	2	4
Internal Auditor under SSB	6	13
Shari'ah Auditor	17	39

On the performance of shari'ah audit (Table 13), 38% (17) prefer the shari'ah audit to be performed by the shari'ah auditors, a group of professional who are specially certified in shari'ah audit. This is followed by the Islamic jurist, 24% (11), and Sharia Supervisory Board, 20% (9) respectively. 13% (6) state that the internal auditors are the one who should conduct the shari'ah audit under the supervision of the Shari'ah Supervisory Board. 5% (2) feel that it is the responsibilities of the conventional auditor to carry out the shari'ah audit.

5.3 Strategies in Promoting and Developing Shari'ah Audit

Table 14. Shari'ah audit framework is similar to conventional audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	2	7.4	7.4	7.4
	2.00	6	22.2	22.2	29.6
	3.00	13	48.1	48.1	77.8
	4.00	6	22.2	22.2	100.0
Total		27	100.0	100.0	

Table 14 shows almost half of the respondents (48%) are of no opinion on whether shari'ah and conventional audit share a similar framework. Each 22% agree and disagree that both framework are the same. Only 7.4% strongly disagree that the framework is the same.

Table 15. Shari'ah audit framework should differ from conventional audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	5	18.5	18.5	22.2
	4.00	15	55.6	55.6	77.8
	5.00	6	22.2	22.2	100.0
Total		27	100.0	100.0	

Slightly more than half (56%) agree that the theoretical framework should differ while 22% strongly agree. 18% are neutral and 4% disagree that the theoretical framework should differ (Table 15).

Table 16. Use of AAOIFI standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	16	59.3	59.3	59.3
	4.00	10	37.0	37.0	96.3
	5.00	1	3.7	3.7	100.0
Total		27	100.0	100.0	

59% strongly disagree that the AAOIFI standards are used in the Islamic financial institution in Brunei. Another 37% agree that it is used and 4% strongly agree (Table 16).

Table 17. Development of shari'ah audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	4	14.8	14.8	14.8
	4.00	19	70.4	70.4	85.2
	5.00	4	14.8	14.8	100.0
Total		27	100.0	100.0	

On the development of shari'ah audit, 70% agree that it is important to develop the shari'ah audit apart from the conventional audit. While 15% strongly agree, the same percentage (15%) is neutral (Table 17).

Table 18. Broader scope of shari'ah auditing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	6	22.2	22.2	22.2
	4.00	15	55.6	55.6	77.8
	5.00	6	22.2	22.2	100.0
Total		27	100.0	100.0	

For the scope of shari'ah auditing got to be broader than conventional auditing, 56% agree, where as 22% strongly agree. Another 22% are neutral (Table 18).

Table 19. Shari'ah auditing limited to financial statements audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	1	3.7	3.7	3.7
	3.00	15	55.6	55.6	59.3
	4.00	9	33.3	33.3	92.6
	5.00	2	7.4	7.4	100.0
Total		27	100.0	100.0	

56% are neutral on whether the scope of shari'ah auditing is limited to financial statement audit. However, 33% agree and a further 7% strongly agree that it is limited to financial statement audit (Table 19).

Table 20. Shari'ah auditors should have specialized qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	4	14.8	14.8	14.8
	4.00	15	55.5	55.5	70.4
	5.00	8	29.6	29.6	100.0
Total		27	100.0	100.0	

For shari'ah auditors to have a specialized shari'ah certification 55% agree and 30% strongly agree. 15% are neutral (Table 20).

Table 21. Shari'ah audit practitioners are qualified in shari'ah and accounting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	5	18.5	18.5	18.5
	4.00	14	51.9	51.9	70.4
	5.00	8	29.6	29.6	100.0
Total		27	100.0	100.0	

30% strongly agree that the shari'ah audit practitioners are qualified in accounting and shari'ah. 52% agree while 18% are neutral (Table 21).

Table 22. Setting up a body for shari'ah auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	3	11.1	11.1	11.1
	4.00	15	55.6	55.6	66.7
	5.00	9	33.3	33.3	100.0
Total		27	100.0	100.0	

A total of 56% agree that a special body to be set up and in charge of the qualification and competence of shari'ah auditors. 33% strongly agree and 11% are neutral (Table 22).

Table 23. Shari'ah auditors should be independence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	8	29.6	29.6	29.6
	4.00	11	40.7	40.7	70.4
	5.00	8	29.6	29.6	100.0
Total		27	100.0	100.0	

On the questions of whether the shari'ah auditor should be independent of the organization they are working in, 41% agree, 30% strongly agree and 29% are neutral (Table 23).

Table 24. Shari'ah auditing practitioners are independent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	6	22.2	22.2	25.9
	4.00	10	37.0	37.0	63.0
	5.00	10	37.0	37.0	100.0
Total		27	100.0	100.0	

Of shari'ah auditing practitioners to be independent the result are, 48% are neutral, 33% agree, 15% strongly agree and 4% disagree with it (Table 24).

Table 25. Sufficient number of shari'ah auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	13	48.1	48.1	51.9
	4.00	9	33.3	33.3	85.2
	5.00	4	14.8	14.8	100.0
Total		27	100.0	100.0	

Slightly more than half, 52% are neutral when asked whether there is sufficient number of shari'ah auditors to perform the shari'ah audit effectively. 4% strongly agree and 22% agree. Those who disagree are 15% and 7%

strongly disagree (Table 25).

Table 26. Shari'ah auditors are adequately trained in banking and finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	2	7.4	7.4	7.4
	2.00	4	14.8	14.8	22.2
	3.00	15	55.6	55.6	77.8
	4.00	5	18.5	18.5	96.3
	5.00	1	3.7	3.7	100.0
	Total	27	100.0	100.0	

It is noted that 55% are neutral on whether the shari'ah auditors are adequately trained in banking operations and financial products. This is followed by 30% who agree and 4% strongly agree. 11% disagree with the statement (Table 26).

Table 27. Shari'ah auditors are adequately trained in shari'ah related audit risks and issues

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	3	11.1	11.1	11.1
	3.00	16	59.3	59.3	70.4
	4.00	7	25.9	25.9	96.3
	5.00	1	3.7	3.7	100.0
	Total	27	100.0	100.0	

59% of the respondents are neutral on shari'ah auditors having adequate training in shari'ah related risks and issues. While 33% agree on that mater, 4 % strongly agree and 4% also strongly disagree (Table 27).

Table 28. IT systems are sufficient

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	16	59.3	59.3	63.0
	4.00	9	33.3	33.3	96.3
	5.00	1	3.7	3.7	100.0
	Total	27	100.0	100.0	

22% agree and 4% strongly agree on the information technology sufficiency in providing the shari'ah auditor with the necessary data and information to complete the audit. 52% are neutral and 22% feel that they disagree (Table 28).

Table 29. Islamic financial institutions have done enough in promoting shari'ah audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	9	33.3	33.3	33.3
	3.00	11	40.7	40.7	74.1
	4.00	6	22.2	22.2	96.3
	5.00	1	3.7	3.7	100.0
	Total	27	100.0	100.0	

Only 4% are strongly agreed that the Islamic financial institutions have done enough to promote shari'ah audit. While 22% agree, 33% disagree. 41% are neutral (Table 29).

Table 30. Mass media can help in educating the public on shari'ah audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	4	14.8	14.8	14.8
	4.00	19	70.4	70.4	85.2
	5.00	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

Large majority (70%) agree that the mass media could help to educate the public on shari'ah audit. 15% strongly agree and another 15% are neutral (Table 30).

Table 31. Basic understanding and knowledge of shari'ah audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	6	22.2	22.2	22.2
	2.00	6	22.2	22.2	44.4
	3.00	7	25.9	25.9	70.4
	4.00	5	18.5	18.5	88.9
	5.00	3	11.1	11.1	100.0
	Total	27	100.0	100.0	

When the respondents are asked whether they have basic knowledge and understanding of shari'ah audit, 11% strongly agree, 19% agree, 26% are neutral and 22% strongly disagree (Table 31).

Table 32. Willingness to have understanding on shari'ah audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	12	44.4	44.4	48.1
	4.00	9	33.3	33.3	81.5
	5.00	5	18.5	18.5	100.0
	Total	27	100.0	100.0	

However, 33% (agree) respond that they would like to know more of shari'ah audit, 19% strongly agree, 44% are neutral and 4% disagree (Table 32).

Table 33. Willingness to participate in shari'ah audit program

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	13	48.1	48.1	51.9
	4.00	9	33.3	33.3	85.2
	5.00	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

48% of the respondents are neutral in willing to participate in any educational program on shari'ah audit. 33% agree and 15% strongly agree to participate. Only 4% disagree to participate (Table 33).

Table 34. Islamic financial institution succeed in educating the public on shari'ah audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	3	11.1	11.1	11.1
	3.00	13	48.1	48.1	59.3
	4.00	8	29.6	29.6	88.9
	5.00	3	11.1	11.1	100.0
	Total	27	100.0	100.0	

48% are neutral when asked whether the Islamic financial institutions succeed in educating the public on shari'ah audit. 30% agree and 11% strongly agree. Another 11% are strongly disagree (Table 34).

Table 35. Exposure of shari'ah audit is limited

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	8	29.6	29.6	29.6
	4.00	12	44.4	44.4	74.1
	5.00	7	25.9	25.9	100.0
	Total	27	100.0	100.0	

44% of the respondents agree that the exposure of shari'ah audit is limited and 26% are strongly agreed with the statement. 30% are neutral (Table 35).

Table 36. Shari'ah audit has a high potential to be developed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	1	3.7	3.7	3.7
	3.00	6	22.2	22.2	25.9
	4.00	10	37.0	37.0	63.0
	5.00	10	37.0	37.0	100.0
	Total	27	100.0	100.0	

Lastly, 37% strongly agree and 37% agree that shari'ah audit has a good potential to be developed. 22% are neutral and 4% disagree that it has potential (Table 36).

6. Discussion

The gender distribution indicates that a big majority (93%) are female. And only 7% are male. Therefore the opinions are biased towards female. Also, 93% of the respondents are below 30 years of age. Only 7% are in the range of 41 to 40. So, the voice of the young people formed the majority in this study. It is also seen that two third of the respondents are from University A, as it is older than University B and has more postgraduate programs and students.

More than half of the respondents (55%) have not heard the term shari'ah audit through any modes before. They (70%) are unaware of shari'ah audit and 78% do not know the difference between shari'ah audit and conventional audit. Likewise, the respondents feel that the Islamic financial institutions do not do enough promotion on shari'ah audit. This is agreed by 70% of them who feel that the current exposure of shari'ah audit is still very limited. One way to overcome this is through the help of mass media, which includes radio, television, internet and newspapers. Despite the setbacks, 74% of the respondents agree that shari'ah audit has a very good potential to be further developed in the future.

7. Conclusion

The results of this study indicate that majority of the postgraduate students are unaware of the term shari'ah audit. They also do not know the difference between shari'ah audit and conventional audit. This is worrying as they are the future of the industry and majority of them are in the 20 to 30 years old. No doubt that some of them will work in the Islamic financial institution in the future. The respondents feel that the scope of shari'ah audit is broader than conventional audit, and they are correct. The involvements of shari'ah scholar are vital to promote shari'ah audit. In addition, they state that the shari'ah auditor should be trained in accounting with a specialized certification in shari'ah as the auditor do not require the high level of knowledge in shari'ah as what the shari'ah

advisors should have. In the context of Brunei, the respondents indicate that the Monetary Authority of the country to appoint shari'ah auditors and the shari'ah auditor to be independence of the Islamic financial institutions. Finally, on the issue of limited exposure, the mass media roles are duly noted to help disseminate information to the public.

7.1 Future Research

This study would also like to recommend an in-depth research on the roles of *Hisbah* and *Muhtasib* in modern context. It may provide many useful insights especially to address the issue of shari'ah auditor's competency and independence. Other possible future research areas include the views of other stakeholders such as employees, customers and undergraduate students. They are equally important so that the IFIs and relevant authority may take necessary steps for the future Islamic finance growth and development, particularly in shari'ah audit.

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