

# Knowledge for Shari'ah Auditors' Competency in Islamic Financial Institutions

Nor Aishah Mohd Ali, Zakiah Muhammadun Mohamed, Shahida Shahimi, and Zurina Shafii

**Abstract**—Specialized auditors providing assurance that Islamic Financial Institutions (IFIs) comply with shari'ah principles are needed to serve better the IFIs' stakeholders. These auditors who are termed as shari'ah auditors require a different set of knowledge to become competent in performing their function effectively. However, shortage of qualified and competent shari'ah auditors to perform the shari'ah audit is one of the challenges experienced by the IFIs in Malaysia. This paper aims to identify the knowledge requirement of shari'ah auditors. A multiple-case study involving four groups of IFIs has been conducted to gather rich data empirically on what constitute as required knowledge for shari'ah auditor. In total, 31 interviews have been performed involving the shari'ah auditors as well as Head of Shari'ah audit department of the participating IFIs. It is found that there are minimal guidelines on recruitment of shari'ah auditors in IFIs. The majority of the respondents within the group have also chosen Shari'ah knowledge as the main knowledge to be acquired besides knowledge in Islamic banking operation, Fiqh Muamalat, auditing and conventional banking. Comparative analysis between the Head of Shari'ah Audit and the shari'ah auditors does not show much difference regarding their choice of knowledge except for the knowledge in Fiqh Muamalat and Islamic banking. Also, auditing seems to be less favored by the respondents as a component of knowledge required for shari'ah auditors as it is regarded more as a skill to be applied rather than knowledge to be acquired.

**Index Terms**—Competency, knowledge, shari'ah, shari'ah auditors.

## I. INTRODUCTION

The development of IFIs has been showing an upward trend in the worldwide market share. It was reported by the Ernst and Young World Banking Competitiveness Report 2014/2015 that the international Islamic banking assets has set to exceed US\$778 billion in 2014 and is expected to reach US\$1.9 trillion by 2019 [1]. This increase may indicate a positive response from stakeholders over Islamic banking products, creating vast opportunities to the Islamic financial service provider.

As IFIs are expected to incorporate Islamic values in their practice by their stakeholders at large, they need to have a steadfast corporate governance to ensure a robust and effective corporate governance within the Islamic setting is

upheld. A shari'ah compliant operation is a manifestation of commitment of these IFIs to safeguard the welfare of their faith-based stakeholders. Shari'ah compliant IFIs meant the institution is operating according to the shari'ah precept. A shari'ah audit would entail as an assurance service that the IFIs are shari'ah compliant in their whole operation.

In Malaysia, the governance of IFIs falls under the purview of its Central Bank of Malaysia (CBM). CBM introduced the Shari'ah Governance Framework (SGF) in 2011 as depicted in Fig. 1 to strengthen the structure of shari'ah governance, processes and arrangements, therefore accomplishing the shari'ah compliant among the IFIs in Malaysia [2]. As depicted in Fig. 1, SGF consists of four (4) functions namely shari'ah risk management control, shari'ah review, shari'ah research and shari'ah audit. Under the purview of SGF, shari'ah audit acts as the third line of defense in mitigating shari'ah non-compliance risk of the IFIs.

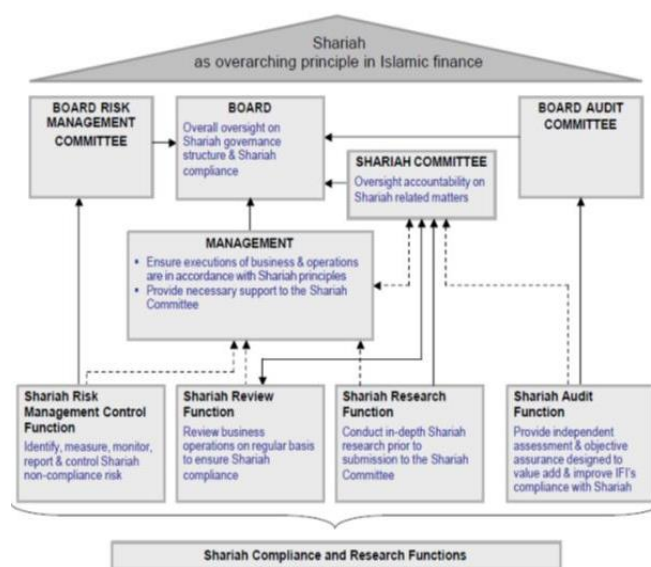


Fig. 1. Shariah governance framework.

The enactment of Islamic Financial Services 2013 (IFSA 2013) further enforces the monitoring mechanism on the governance of IFIs. IFSA 2013 has specifically mentioned in section 37 that CBM may require the IFI to appoint an approved individual to conduct the shari'ah compliance audit for the IFIs. Failure to do so, confers the right to the CBM to appoint a person external to the IFIs to perform the shari'ah audit as stated in section 38 of the IFSA 2013 [3]. In fact, section 28 of the IFSA 2013 states that failure to comply the Act may subject the Board of Directors, management or officers of the institutions to a heavy penalty of RM25 million including imprisonment up to 8 years.

According to SGF, shari'ah audit can be defined as

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“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, 2010; p. 23).

Another relevant auditing standards much referred to by the internal auditors of the IFIs are the International Professional Practices Framework (IPPF) and the International Standards Professional Practice of International Auditing (ISPPIA). Both standards are issued by the Institute of Internal Auditors (IIA).

Notwithstanding the significance of shari’ah audit function, there has been a little guideline on how to train or groom qualified shari’ah auditors. In Malaysia, one notable guideline available is the SGF which states that shari’ah audit shall be performed by the internal auditors of the IFIs who have acquired sufficient shari’ah related knowledge and training [3]. Since shari’ah audit is regarded as a new operational audit branch to be added to the existing unique nature of the internal audit work within the IFIs, it is worth to explore the potential knowledge required to perform the shari’ah auditor duty.

## II. LITERATURE REVIEW

### A. Shari’ah Audit

Study on Islamic auditing can be traced back to work by Akram Khan who argued that the practice of auditing in the Islamic economic setting need to differ from the present conventional audit such that the scope should be wider [4]. This proposition was also supported by other scholars and emphasized that activities undertaken by the IFIs do not breach the shari’ah precept, shari’ah audit scope should cover a much broader scope such as operational activities, financial statements, organisational structures, policies and procedures, documentations and contracts as well as socioeconomics and religion [5]-[7]. Most of the previous discussion was merely in the form of conceptual paper and discussion through conference proceedings.

The need and challenges to conducting shari’ah audit were also raised conceptually by Abdul Rahim and Hisham [6], [8]. Issues like what to be established as shari’ah audit evidence, developing audit programs and procedures as well as producing competent and independent shari’ah auditors as no specialized academic and professional education and training noted to have established in IFIs as compared to the pace of worldwide Islamic banking and finance expansion.

Past empirical research on the need for shari’ah audit in Malaysia started only in 2009 by Nawal Kassim who revealed that most IFIs prefer the shari’ah review to comprehensive shari’ah audit. At that time, performing shari’ah audit was not a compulsory requirement coupled with few other issues such as lack of expertise to perform a shari’ah audit as well as performing shari’ah audit by the external auditors would mean additional operating cost to the IFIs [9].

The above studies were studies performed before the introduction of SGF by the CBM. The establishment of SGF has made it compulsory for the IFIs to have shari’ah audit performed by their institutions.

The dilemma faced by the industry player in performing shari’ah to the full-fledge is very much expected as there is no standard shari’ah specific internal audit framework, thus led to them having no uniform shari’ah audit practice. In most cases the IFIs seems to replicate the normal conventional external audit program, focusing more on the financial audit [10]. Another study also revealed that practitioners used conventional audit program with some modification to fit the Islamic banking products and operations [11].

The actual practice of shari’ah audit by the practitioners is not without challenges and problems. Post SGF also saw more discussion on the matters pertaining to shortages of shari’ah auditors with knowledge of both shari’ah and accounting and auditing knowledge, duties and roles and qualification [9], [10], [11], [13], shari’ah audit training and education [14]-[15], certification of shari’ah auditors [16], [17] and shariah audit effectiveness [18].

For the purpose of this study, a comparative review of the competency requirement by CBM’s SGF, AAOIFI standards (through its Internal Shariah Review function that is equivalent to internal audit) and internal auditing by the ISPPIA is shown in Table I.

TABLE I: COMPARISON OF COMPETENCY REQUIREMENT FOR SHARI’AH AUDIT BASED ON SGF AND AAOIFI STANDARDS AND INTERNATIONAL STANDARD FOR INTERNAL AUDITING

	Competency Requirement
<b>CBM’s SGF</b>	Para 7.8: <i>Internal auditors who have acquired Shariah-related knowledge and training</i>
<b>AAOIFI (Internal Shariah Review)</b>	Para 12: <i>Knowledge of Islamic Shariah rules and principals in general, and Fiqh Muamalat in particular</i>
<b>ISPPIA (Internal Auditing)</b>	Attribute Standards 1210: <i>Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities</i>

Based on the above review, it appears that the guideline provided by SGF does not specifically mention what type of shari’ah related knowledge required to perform the shari’ah audit. At the international level, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued specific auditing standards for both internal and external shari’ah auditor [19]. However, standards issued by AAOIFI are not compulsory for IFIs to adopt and mainly used in the Middle East country (MEC) such as Bahrain and Qatar. It was found that IFIs do refer to the AAOIFI standards in addition to the local standards [12]. Compared to CBM’s SGF, the AAOIFI standards relatively provide a much detailed guidance.

It can only be inferred from conditions set for Shariah Committee and Shariah Review that knowledge meant are Fiqh Muamalat and Usul-Fiqh. A much detailed investigation is needed to determine the aspect of knowledge consummating to competency required for shari’ah auditors in performing their duty. As there is limited literature concerning competency aspect of shari’ah auditors, this study

also refers to the mainstream research on **competency** and **knowledge** for guidance and modification of criteria necessary to suit the unique operation of IFIs in light of the CBM's SGF requirement.

### *B. Competency Definition*

The concept of "competency" was first highlighted by Prof David Mc Clelland, a psychologist who believes it to be a much relevant concept compared to intelligence. The idea was then popularized by Boyatzis and being explored extensively within the management literature and practiced in the management field as a mean to improve individual's performance [20].

In general, competency can be categorized as a facet of behavior, which are related to superior job performance where it is argued that people conduct their job at different competency level. It can also be associated with technical skills and knowledge to conduct the specific task. On the other hand, at the organizational level, competency refers to certain managerial roles for top management such as planning and organizing [20]-[21].

Competency can be summarized as human abilities to perform certain tasks in an organization as well as the capabilities of certain organizations to perform functions for sustainability purposes.

### *C. Internal Auditor's Competency*

From the auditing professionals' stance, several extensive researches on competency to ensure high quality performed by their practitioners have been performed. A worldwide survey has been conducted by the International Internal Audit Research Foundation (IIARF) involving internal auditors to comprehend how internal audit is being performed throughout the world. The results of the survey were then translated into a common body of knowledge (CBOK) [22]. One of the areas studied under CBOK is the best practices and competency of the auditing practitioners. CBOK explains competency as a relationship between task performance and the individual's characteristics such as knowledge, skills and attitudes [22]. Five (5) areas of knowledge about competencies to perform work for internal auditors identified by CBOK 2010 are auditing, ethics, fraud awareness, internal auditing standards and technical knowledge of the industry [23].

In addition to that, the IIARF has specifically performed another comprehensive research between the years 2011 to 2013 to obtain stakeholders' views on internal audit competency. The research discovered that competencies rated higher or lower and competencies showed largest rating gap between the stakeholders and the internal auditors. It was revealed that the higher ratings for components of competencies were ethics, confidentiality, objectivity and professionalism as opposed to lower ratings for negotiations skills, business process analysis and data collection and analysis tools and techniques. In contrast, aspects in which the stakeholders gave a significantly lower rating than the internal auditors themselves understood the nature of the business, business process analysis and problem-solving skills. In some areas such as the perception on the overall performance of the internal auditor, the stakeholders rated internal audit performance higher than the internal auditor themselves [24].

On the other hand, in relation to the issue of competency, the Accounting professional body, the International Federation of Accountants (IFAC) guidelines on International Education Standard (IES) 8 on Competence Requirements for Audit Professional mentioned that auditors must have formal audit education i.e. knowledge (covered in IES 2), professional skills (IES 3) and capable to apply professional values, ethics and attitudes to various situations and organizations (IES 4). These guidelines advocate knowledge as the main element to competency before skills and attitudes [25].

### *D. Knowledge*

In general, knowledge refers to the basic understanding of a person over something. The acquired knowledge can be divided into two which is general and specific knowledge. While the general knowledge usually refers to the formal education obtained through completing certain syllabus that a student or graduate would obtain from their learning institution, specific knowledge refers to a specialized knowledge that is acquired through certain training or learning a specialized area in higher learning institution [26].

A person's knowledge must be transferred to other individuals to nurture organizational knowledge and such transfer will only be possible once knowledge is externalized by those acquiring it and externalized by those needing it [27].

In Islam, a well-balanced worker needs to have both acquired and revealed knowledge. The revealed knowledge is the primary source of knowledge as revealed by Allah s.w.t. It is argued that only when both types of knowledge are embedded into the human capital development and training programs, then only a competent and well-balanced knowledgeable Muslim worker is generated and capable of serving to the Islamic financial services industry [26].

As discussed earlier, the guideline provided to the IFIs on the competency knowledge desirable for those responsible for performing the shari'ah audit is not specifically mentioned and open to interpretation of the IFIs. The closest option for the IFIs is to infer that the criteria set for the Shari'ah committee and shari'ah review about shari'ah referring to Fiqh Muamalat and Usul-Fiqh. The IFIs have to overcome the lack of guidance and details on this 'knowledge' aspect necessary for the shari'ah auditors. Alternatively, the IFIs may choose to send their shari'ah audit staff to the local training agencies that offer Islamic finance module that covers basic shari'ah principle and Fiqh Muamalat. Examples of training centers are Institute of Banking and Finance Institution (IBFIM), International Centre for Education in Islamic Finance (INCEIF) and Centre for Research and Training (CERT) [28]-[30].

Prior research on competency of internal auditors focused on the commercial organization and centered to those professionals liaised to the professional bodies. Their study also concentrated on the general competencies and skills rather than scrutinizing the particular 'knowledge' considered necessary for internal auditors to perform their duty. Hence, this study purports to elicit the specific element of competencies regarding 'knowledge' considered essential for shari'ah auditors to perform their duty.

### III. METHODOLOGY

The main purpose of this research is to have an insight into '*knowledge*' as an element of competency for shari'ah auditors. To achieve this, a multiple-case study has been performed through in-depth interviews session. For the purpose of this study, IFI refers to the financial institution offering the Islamic banking product and services.

Out of 24 financial institutions (FIs) offering Islamic banking product and services approached through email and phone, only 11 willing to participate. Details of the respondents are in the table below.

TABLE II: RESPONDENTS FOR THE STUDY

Types of group	Positions	Total
Central Bank of Malaysia (CBM)	Manager	1
Full-fledged Islamic banks (FFIB)	Head of Shari'ah Audit Department (HSA)	4
	Shari'ah auditors	8
Islamic Banking Subsidiaries (IBS)	Head of Shari'ah Audit Department (HSA)	3
	Shari'ah auditors	5
Development Financial Institutions (DFIs)	Head of Shari'ah Audit Department (HSA)	3
	Shari'ah auditors	6
Islamic window (IW)	Head of Shari'ah audit	1

There are four groups involved in this multiple case study, namely full-fledged Islamic banks (FFIB), Islamic banking subsidiaries (IBS), Development Financial Institutions (DFIs) and Islamic window (IW). FFIB refers to either local or international banks which only offer Islamic banking products or services. Their operation is governed by the IFSA 2013. IBS, on the other hand, denotes conventional banks with Islamic banking subsidiary. They are governed by both the IFSA 2013 and the Financial Services Act 2013 (FSA 2013). DFIs refers to specialized financial institutions established by the Malaysian government aimed to develop and promote importance strategic sectors to achieve the country overall socio-economics development objectives, which offer Islamic products and services. DFIs falls under the jurisdiction of Development Financial Institutions Act 2002 and IFSA 2013 for their Islamic banking operation. The fourth group, IW refers to commercial bank granted a license by the CBM to offer Islamic banking product and services. Similar to IBS, IW's operation is also governed by both the IFSA 2013 and FSA 2013 in their operation [31].

In this study, participants are selected based on purposive sampling. The small sample size of respondents is considered normal in a qualitative study as they are selected based on the criteria that they would provide insights and useful information of the phenomenon under investigation [32], [33]. The shariah auditors and Head of shari'ah auditors are purposely selected because they are the actual individuals involved in the subject matter of the study [34]. The mix of the senior and junior shari'ah auditors provide better information with regards to the knowledge needed for them to conduct the shari'ah audit effectively.

The verbatim transcription was then performed for all the

interview sessions using the Computer Assisted Qualitative Design Analysis Software namely Nvivo and Atlas.ti. Nvivo is used in the process of transcribing the interview while Atlas.ti is used to facilitate the data coding process.

For the purpose of confidentiality, the respondents were coded G1R1 to G1R12 for the FFIB, G2R1 to G2R8 for the IBS, G3R1 to G3R9 for the DFIs and G4R1 for the IW without any specific reference to the institutions.

### IV. FINDINGS AND DISCUSSION

#### A. Demographic Information

As depicted in Table II, the 31 research participants who voluntarily participate in this study consists of a representative of CBM, 11 Head of Shari'ah auditor (HSA) and 19 shari'ah auditors (SA). The majority of the HAS and SA consist of males, which are 87.5% and 62.5% respectively. As for the religion, interestingly, two respondents who served as HSA and SA respectively in the FFIB are non-Muslims. The age range for the HSA is mostly more than 40 years of age (57.2%) with experience of more than 15 years in the banking industry. As for the SA, the majority of them aged less than 40 years of age (65.2%) with the majority of them having less than five (5) years working experience in the audit field (39.13%).

Regarding qualification background, the majority of the respondents (61.3%) have at least a degree qualification while 22.6% have Masters qualification. On the area of their specialization during their undergraduates, majority of the respondents have obtained their degree in Accounting (10/31, 32.3%) followed by Islamic Finance (7/31, 22.6%), Shariah (6/31, 19.4%) and other types of field of study such as Engineering, Chemistry and General Islamic Studies (8/31, 25.8%). Interestingly, two (2) of the respondents are non-Muslims that represent an HSA and SA from the FFIB and DFIs respectively.

#### B. Current Practice of the IFIs in Recruiting the Shari'Ah Auditors

The interviews have furnished rich information on the normal practice in recruitment, selection and conduct of shari'ah auditors among the shari'ah auditors among the groups of this study. As recommended by the SGF, all the Shari'ah audit section functions within the Internal Audit Department (IAD) of the IFIs.

On the qualification element necessary for shari'ah auditors to become competent in performing their duty, respondents from the four (4) groups of IFIs provide mix view on the matter. While local FFIBs prefer to appoint shari'ah auditors from mix background of qualification; consisting of those individuals from Accounting, Banking and Shari'ah background, foreign FFIB prefers to have shari'ah audit conducted solely by those with accounting background.

The IBS, however, chose to recruit Accounting or Banking graduates to be part of their shari'ah audit team. Interestingly, one of the heads of the shari'ah department in the IBS majored in Engineering and Information System. As for the DFIs, two (2) of the HSA hold a professional qualification in Accounting with most of the SA having Accounting

qualification. Interestingly, a DFI which operates on a full-fledged Islamic mode operates by having all five (5) shari'ah auditors in the shari'ah audit department majoring in Shari'ah. The sole representative of a financial institution with Islamic window graduated in Chemistry but became fascinated with the Islamic finance and Islamic banking world, has pursued his career by joining FSTEP, a program under CBM, grooming interested graduates in Islamic Finance.

Even though most of the shari'ah auditors interviewed from both groups of this multi-case study come from the mixed background, all of them have attended at least basic Shari'ah training particularly Islamic Finance and Islamic banking products that are made compulsory by their institutions to their internal audit staffs. The respondents also highlighted the challenges in hiring shari'ah auditors who possess both qualification in Accounting and Shari'ah. In fact, no candidates were discovered by the HSA to have such qualification during their interview session with the potential candidates who applied to be part of their shari'ah audit team. This is understandable since it is uncommon to find university graduates with double major in the Malaysian education system. As one of the respondents explains:

*"A limited number of individual with both Shari'ah or Islamic Banking exposure and Auditing"* (G2R2).

On the other hand, experienced internal auditors or individuals with Shari'ah background tend to demand higher pay, as one of the respondents from the foreign FFIB put:

*"Yes, they demand higher pay which I...we have no choice, we have to find somebody who doesn't ask for the moon and the sun, find somebody who is reasonable, if we take someone experienced, which means he is working in other banks, we have to take from another bank"* (G1R8)

The HSA of another local FFIB also expressed his frustration with the newly graduate attitude who cannot stand the long hours work and 'jump' to other banks which offers better pay. Therefore, he prefers to train someone within the IAD of the IFI, as he explains:

*"This section has been established since 2008. Then I brought in a graduate from IIUM to be trained as shari'ah auditor. Then he jumps to another bank. In 2009, I recruited another graduate, he also left the bank. In the end, end of 2012 and beginning of 2013, then only I started to have permanent staff in this department."* (G1R1)

Other challenges in hiring competent SA highlighted by the respondents (mainly HSA) are the difficulty in getting staffs with auditing skills, difficulty in getting experienced shari'ah auditor, lack of knowledge in shari'ah, less work commitment as well as unable to cope with the industry working pressure.

### C. 'Knowledge' Requirement for Shari'ah Auditors

In general, the respondents provide mix view on the ideal 'knowledge' to be acquired to perform the shari'ah audit. The regulator (RG) is in the opinion that:

*"It is very clear that the main requirement is for the internal auditor to be trained in shari'ah. It didn't describe what sort of training, how many training hours but to us it's like yes shari'ah auditor is something unique and a requirement...I would not say deep understanding in shari'ah, but a basic understanding is sufficient....If you have internal audit within department with knowledge in shari'ah*

*would be better"*

### D. Minimum Guideline

The interview also clarified the reason behind the regulatory body's decision to provide only a minimal guideline in relation competency of shari'ah auditors. As further explained by the representative of CBM :

*"To us, our policy is principle-based policy, we try as to make as broad as to accommodate various types of institution. In Malaysia, we have all sorts of institution, small and large institution, so we try to make the standards confer to the industry. Our style is that we are not going to have too rule-based policy rather than a broad principle. When we have a broad principle, people will start to interpret differently"*

As the CBM holds to the principle that 'one size does not fit all', they are saying that no specific guideline fits all types of IFIs in the context of Malaysian Islamic finance environment. Hence, the one provided by them function as a basic guideline in ensuring that IFIs HAS set up their shari'ah audit team. It is therefore up to the IFIs's discretion on the recruitment policy they feel well suit their organization.

### E. Specific 'Knowledge' among the Groups

As for the views of the practitioners in the industry, as depicted in Fig. 2, the pattern among the four groups of IFIs shows concentration on shari'ah knowledge, followed by knowledge of Islamic banking and Fiqh Muamalat. Other types of knowledge raised by the respondents are accounting, business, risk mapping, internal control, commercial and company law as well as well as conventional banking. As most of the appointed shari'ah auditors are from the Accounting background, they obtained their shari'ah knowledge and banking operations from training and courses provided either in-house or by their respective banks or they attended other courses provided by other Islamic finance training centers such as INCEIF or IBFIM. Such practice was acknowledged by respondent G2R2 from the IBS group where she mentioned that:

*"The knowledge on shari'ah can be acquired through many sources such as discussion with the shari'ah management team of the bank or by the Shariah Committee of the Bank"*

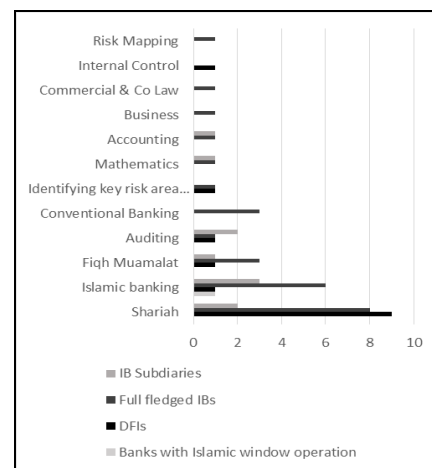


Fig. 2. Pattern of responses on 'Knowledge'.

One of the respondents from the IBS mentioned that:



“Of course the understanding of shariah is utmost important for you to become a shariah auditor. Based on that, you will be able to tell what are lacking regarding controls, in ensuring shariah compliance at all time” (G2R4)

Another respondent from the FFIB, (G1R6) supports the above opinion, stressed that:

“.....the particular staff who is passionate and not relying on his experience in audit only. He has to learn, experience is not enough, he needs to have the shari’ah knowledge because when it comes to shari’ah audit, there are a lot of things that we don’t know especially on the contracts, how the contracts work, that thing can certainly be a challenge”

Another equally significant knowledge considered crucial to complement the auditing and shari’ah knowledge is the knowledge of Islamic banking operation such as knowledge on products offered by the Islamic banks. A respondent from the IBS commented on this type of knowledge by stating:

“The person should have an interest or commitment towards Islamic banking audit and willing to learn many new things, for instance changes or concern in Islamic banking industry” (G2R3).

The above statement is reinforced by another respondent from the IBS, (G2R5) as he mentioned that:

“...Knowledge is necessary to understand the risks associated with the Islamic banking business”

Another respondent from the FFIB, (G1R10), however, have a slightly different views on the sequence of knowledge importance where he thinks banking operation knowledge should be the first knowledge to be mastered by the shari’ah auditors prior knowledge in shari’ah. He restated that:

“You need to understand the product, is it sale based? Is it asset based? So they have to be well-versed of the product and the product barrier you know..... The knowledge that need to have is knowledge of banking, deposit...how it works, the fundamental of deposit, we must learn about conventional as well because it has been well established”

On the other hand, one of the respondents from the DFIs seems to favor auditing knowledge compared to knowledge in other areas as he argues:

“An experienced auditor with less Islamic banking knowledge can do the audit in Islamic banks, but if a person with good Islamic banking knowledge have no auditing skill may not achieve the audit objective, he cannot perform, because even though he HAS the Islamic knowledge but when it comes to auditing principle, he cannot do it because when it comes to auditing principle, he cannot achieve the fundamental skills because there is a segregation between shari’ah audit, shari’ah audit client, shari’ah risk management. Those that running the shari’ah business, they have a different principle regarding work done” (G3R4).

The interview also noticed that experienced I from the FFIB is more concerned with the ability of shari’ah auditors supervised by him to be able to identify the key risk area (KRA). To him,

“In audit irrespective whether Islamic or non-Islamic, first, we have to go on risk basis, which is the higher risk, segregate it, which are the lower risks, prioritize the audit. The same goes to shari’ah audit, which are the highest risk in shari’ah, we prioritize it, look at the control, look at how they manage the risk and we give comment. And the best part is we

provide feedback to the business unit and also the Shari’ah Committee. Follow the SGF, we provide input to Shari’ah Committee. Maybe at that time we have opportunity to deliberate this is the risk you want to manage, but if we find the control is not adequate, we got to increase the control in that context” (G1R1)

Another interesting comment on the required ‘knowledge’ element necessary for shari’ah auditors highlighted by the respondents is the need for them to be good with Mathematics or calculation. This idea was raised twice by two I from the IBS group. They mentioned that,

“First, Mathematics” (G2R6) and

“Basically, talking about it, of course if you are good at numbers” (G2R4)

The only IFI with all shari’ah auditors team graduated in Shari’ah unanimously agree that shari’ah knowledge regarding Usul Fiqh and Qawaid Fiqhiah (literally means a source of Fiqh rules. As mentioned by one of the respondents:

“For the best practices of shari’ah audit, there must be someone with Shari’ah background. There are many ways and angle from the shari’ah point of view that aspect of shari’ah can be looked upon. We will collaborate from the beginning let say I can highlight the needs of shari’ah audit from the shari’ah background, we can see the difference. We managed to see...” (G3R1)

On the difference between opinion among the HSA and SA, it is obvious that the HSA provided an extra choice of knowledge as opposed to those given by the SAs. Figure 3 shows the schematic view of the difference opinion between HAS and SA on ‘knowledge’.

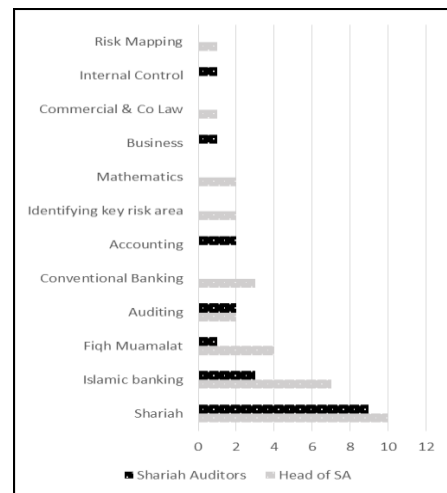


Fig. 3. Comparison of Response between head of Shari’ah auditors and shari’ah auditor on ‘knowledge’ requirement.

Interestingly, both parties agreed that knowledge in shari’ah is the utmost knowledge to be acquired and grasped in performing their duty, followed by knowledge of Islamic banking and Fiqh Muamalat. These findings are similar to the overall view of knowledge of all respondents from the four groups.

Based on the findings above, it can be inferred that ‘knowledge’ is only one component of competenc, we need also to consider other elements such as skills and another characteristic. Auditing knowledge for instance seems to have low response compared to shari’ah knowledge. This choice of knowledge is understandable since most respondents view

auditing as a component of skills that need to be applied rather than 'knowledge' to be acquired. Moreover, the number of responses captured in the figures does not reflect the actual importance or sentiments of the 'knowledge' due to the nature of the qualitative information.

## V. CONCLUSION

Review of past studies revealed that in-depth study on 'knowledge' competency has not been performed. Currently, a shari'ah audit of the IFIs is performed by the internal auditors assigned to shari'ah audit section based on the guideline in the SGF issued by the CBM. This study attempts to provide an insight of what is the ideal 'knowledge' competency from the perspective of the practitioners in the industry themselves.

The findings in this study indicate that in general it is challenging to recruit competent shari'ah auditors who are groomed in both shari'ah and audit knowledge. On the other hand, experience candidates tend to demand higher pay while newly graduate lack of passion over the job besides having an attitude problem.

The findings also show that generally, there is not much difference concerning the knowledge aspect of competency among the respondents of the four groups in this study. The pattern on the types of knowledge among the respondents revealed knowledge in Shari'ah, Islamic banking and Fiqh Muamalat as three (3) important knowledge favoured by the practitioners. Other knowledge highlighted are conventional banking, auditing and accounting.

This study does not suggest that 'knowledge' is the only important component of competency. Other components of competency such as skills and other characteristics also need to be considered. For instance, the auditing knowledge has been underrated as it seen more as a skill rather than knowledge.

It is therefore not exaggerating to assert that IFIs in Malaysia still a lack of talent management in shari'ah audit who possess both knowledge in shari'ah and auditing. Practitioners in the industry also emphasized that it is an indeed a challenging task to recruit a potential candidate who holds knowledge in both areas of study. As an immediate measure to overcome shortage of qualified professional in this area, the existing shari'ah auditors can be sent for trainings conducted in-house provided by the HSA as well as those provided by established training organizations such as IBFIM, maintaining continuing professional development (CPD) from the professional bodies such as Institute of Internal Auditors of Malaysia (IIAM) or Malaysian Institute of Accountants (MIA).

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