

PRACTITIONERS SUGGESTIONS TO OVERCOME THE SHARI'AH AUDIT CHALLENGES IN MALAYSIAN ISLAMIC FINANCIAL INSTITUTIONS

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ABSTRACT

The constant advancement of Islamic financial institutions requires highly qualified experts in Islamic finance administrations, to ensure that all transactions made by Muslims and non-Muslims conform to the *Shari'ah* conditions. Certainly, an appropriate method of audit is required for the IFIs to persist in growing and providing assurance that they are rigorously ensuring the *Shari'ah* in all features (of their products, rules, and processes, and contracts). The current study intends to seek suggestions from *Shari'ah* audit practitioners to meet the current gap in the *Shari'ah* audit practice further to ensure *Shari'ah* audit transparency in IFIs in Malaysia. The study employed a quantitative method involving 40 practitioners in the *Shari'ah* assessment services through a purposive sampling procedure from several Islamic banks and Takaful operators in Klang Valley, Malaysia. Data were gathered employing a structured questionnaire and analysed using descriptive statistical instruments, including frequency, percentage, averages, and standard differences due to the descriptive nature of this study. The results suggest that awareness of the *Shari'ah* audit among them is satisfactory, as most of them learnt *Shari'ah* audit through additional training. The findings also demonstrate that there is an absence of an independent audit report, an independent audit framework for the *Shari'ah* audit, and incompetent *Shari'ah* auditors in this practice. The study reveals that the *Shari'ah* audit service has a significant potential to become a marketable job shortly. In due course, to cultivate grander awareness, this study also suggests integrating *Shari'ah* audit-related courses into higher-learning institutions and incorporating them into the professional courses for students and professionals in order to produce competent and capable *Shari'ah* auditors. The study contains a few limitations such as the sample area for the study being confined to Klang Valley area. This research is also unable to perform ANOVA on religious differences as the sample consisted of largely Muslim respondents. Due to these factors, the generalisation of the study's findings will be visibly restricted. This study is a comprehensive proposal for IFIs, whereby it suggests effective and curative solutions for the existing challenges to overcome *Shari'ah* audit challenges.

Keywords: *Shari'ah Audit, Audit Challenges, Islamic Financial Institutions, Malaysia*

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INTRODUCTION

Shari'ah audit has presently emerged as a significant instrument in assuring *Shari'ah* compliance in accordance with the quick advancement of IFIs. The need for *Shari'ah* audit procedures is primarily to fortify the *Shari'ah* compliance. Further, enriching the integrity of the *Shari'ah* audit is essential because of the distinctive nature and qualities that exist in the IFIs' practices. With the growth of IFIs since its first development in the 1970s, global Islamic finance asset management amounted to USD 2.88 trillion in December 2019, and yearly growth was recorded at 14 per cent. More than 1500 IFIs are located in 80 countries globally (IFDI, 2020). Islamic banking assets in Malaysia have now hit USD 254 billion with total Islamic bank deposits representing 38 per cent of total bank deposits in December 2019 (BNM, 2019).

This outstanding advancement of the industry is linked to the strong desire for *Shari'ah* banking administrations, to ensure that all exchanges utilized by Muslims and non-Muslims conform to the *Shari'ah* (Omar, 2019). Obviously, *Shari'ah* non-compliance in IFIs may damage stakeholders' confidence, interrupting the stability of it (Haqqi, 2014; Ali & Hassan, 2019). Moreover, non-compliance with *Shari'ah* can give rise to withdrawals of funds and nullification of investment contracts which can lead to a downturn in the performance of IFIs and increase their risks (Hamza, 2013). For instance, transactions that do not compliant with *Shari'ah* are declared void and credited to charities resulting in net losses for the IFI (Basiruddin & Ahmed, 2019; Ayub et al., 2019). Also, *Shari'ah* non-compliance can tarnish the reputation of IFIs and deteriorate the confidence of depositors, investors, customers and other stakeholders (Nawaz et al., 2020).

Thus, the need for proper control and equalization structure is extremely important to protect the vast quantity of assets under IFI's management. Hassan (2019) pointed to the general competence of the *Shari'ah* people of IFIs. There it appears a lack of basic banking and financial skills amongst them. The inadequate expertise of the *Shari'ah* Board could adversely affect *Shari'ah* governance and impede public trust. Thus, the skills of the members of the *Shari'ah* Board are crucial for achieving a successful *Shari'ah* governance process for IFIs. It is also evidenced that *Shari'ah* Board members should increase their ability and willingness to ensure *Shari'ah* quality (Omar, 2019). In addition to the increasing number of IFIs in Malaysia, the stand-alone *Shari'ah* Audit Framework must be built.

Moreover, it was shown that relevant qualifications for this position are quite necessary for *Shari'ah* understanding (Isa et al., 2020). Salleh et al (2019) definite that the performance gap of *Shari'ah* auditing practices results in 'poor expectations' and 'inadequate performance.' He believes that improving the efficiency of *Shari'ah* auditors, the "performance gap" within the practice of *Shari'ah* audit, hinges on tackling standards and low results. He argued that poor standards are caused by insufficient legal and professional standards on the tasks and obligations of *Shari'ah* auditors. Furthermore, the *Shari'ah* audit is still far from being expected in Malaysia. The problem is not just the Islamic banking question, but also, more critically, that the regulator unable to set standards that enable the Islamic bank's management to carry out a proper audit of *Shari'ah*. However, some Islamic banks initially formed an internal *Shari'ah* auditing division to increase the quality of *Shari'ah* audits (Muhammad, 2018). Thus, an efficient internal audit for *Shari'ah* is needed, which in turn calls on the regulatory bodies involved to set strong and sound rules and procedures to ensure that the IFIs'

audit is properly performed. Effective audit functions are vital for regulator tracking and improvement of Islamic banking sector and for the credibility and transparency as well (Laili et al., 2019). It is shown in the following literature that in Malaysian IFIs' *Shari'ah* audit is not taken seriously regarding auditors' competencies and *Shari'ah* audit framework, moreover, *Shari'ah* audit transparency is questionable because of the absence of an external *Shari'ah* audit procedure. It leads to a conflict of interest due to IFI's compensation. This contrast is much obvious as previously the state governments were the source of compensation for them (Yaacob, 2012). Hopefully, the 2019 amendment by Bank Negara Malaysia on *Shari'ah* Governance Framework (SGF) would result in bridging the gap in *Shari'ah* auditing practices. In relation to this, the study seeks *Shari'ah* auditing practitioners' suggestions and recommendations about the present existing challenges and to attain answers by them in enhancing the practice of *Shari'ah* audit in IFIs. Hopefully, the experts' views and suggestions will help IFIs to enhance and improve the current existing gap in the area of *Shari'ah* audit.

LITERATURE REVIEW

Shari'ah Audit Challenges

Absence of *Shari'ah* Audit and Legal Framework

Given the growing demand for Islamic banking and finance, the *Shari'ah* audit should focus more on how the IFIs can retain accounting and financial reporting under the rules of the *Shari'ah*, the *Qur'an* and *Sunnah*. Therefore, a standardized framework is necessary, and *Shari'ah* auditors should be well qualified. In addition, the more qualified and experienced *Shari'ah* auditors will endeavor to deal with the *Shari'ah* audit and promote good governance in IFIs.

As mentioned earlier, the *Shari'ah* non-compliance in IFIs can devastate the performance of IBs, damage their reputation, and harm the confidence of the associated stakeholders. Thus, one approach to build the confidence of the public is giving assurance and attestation that their operations and financial products are in accord with the *Shari'ah* (Yahya, 2018). This can only be done through conducting a *Shari'ah* audit on their operations instead of a conventional audit (Besar et al., 2009). Therefore, having a sound *Shari'ah* auditing framework assists IFIs in maintaining their credibility and reputation while reducing the risk of *Shari'ah* non-compliance, which can cause substantial damage and losses if IFIs are subject to legal actions when they fail to address *Shari'ah* non-compliance issues properly (Yahya, 2018). Apart from the benefit of the *Shari'ah* audit framework for the IFIs, an internal *Shari'ah* audit unit would assist the *Shari'ah* committee in their fiduciary duties of safeguarding *Shari'ah* compliance. Consequently, Sulub and Sulub (2021) suggest that the implementation of an internal *Shari'ah* auditing framework can support the *Shari'ah* committee members in facilitating accurate *Shari'ah* compliance assurance because if such members serve on multiple boards, then it may affect such crucial tasks.

On the other hand, Khalid et al. (2020) stated that the regulators must offer a rigorous framework including essential standards for the internal *Shari'ah* audit to be effectively governed. Similarly, Isa et al. (2020) demand to cover the expanding number of IFIs in Malaysia, to develop a stand-alone *Shari'ah* audit system. It is also stated that suitable skills are very necessary for this role except for *Shari'ah* understanding. Puad et al. (2020) also noted that a lack of scope and processes still needed to be improved in the current *Shari'ah* audit is existent. Nevertheless, the scholars express varied opinions about the *Shari'ah* audit process and scope. Thus, the regulatory play's a crucial role to shape the *Shari'ah* audit process. In the interim, it has been revealed that IFIs have not conducted *Shari'ah* audit effectively due to the



absence of *Shari'ah* audit regulations and incompetent individuals to conduct this procedure successfully (Ghani & Rahman, 2015; Mohd Ali et al., 2018).

In addition, the IFIs are still attempting to establish an effective *Shari'ah* audit method. It has been unveiled by numerous studies that IFIs rely on a conventional audit system due to the absence of the *Shari'ah* audit framework, although it is required by *Shari'ah* (Ali & Kasim, 2019). Ghani et al. (2015) have stressed that conventional audit frameworks are being used by Malaysian IBs while performing the *Shari'ah* audit.

Nonetheless, the *Shari'ah* audit mechanism is replicated from the conventional system because of the unavailability of specific *Shari'ah* audit model. Even the Takaful operators choose to focus on the audit in a confined manner, whereas the *Shari'ah* audit is more extensive (Puad et al., 2020). Hence, the *Shari'ah* audit is not adequately carried out, as the scope of the audit is not harmonized among institutions. In addition, the *Shari'ah* auditors are also found not to possess the *Shari'ah* knowledge apart from accounting and financial competency. The *Shari'ah* auditors without *Shari'ah* background are unconscious of the risks linked with *Shari'ah*. This would eventually lead to credibility challenges in the *Shari'ah* practices. Eventually, a comprehensive audit team is the best way to do this (Puad et al., 2020).

On the other side, Kasim et al. (2013) investigated *Shari'ah* challenges from the practitioner's point of view. There are three important results from this study: (1) Practitioners adhere mostly to conventional standards, equating them to AAOIFI standards. (2) Auditors are confined to *Shari'ah* and accounting. (3) Self-examination practice is challenging their integrity.

Arwani (2018) thus pointed out a number of flaws in the *Shari'ah* adherence audits of the IFIs. First, despite the efforts of AAOIFI, the *Shari'ah* standard of audit focuses on dollars, cents and not more broadly defined *Shari'ah* auditing in relation to the *Shari'ah* aim. Secondly, regarding the 'actual' owner, who can best conduct the audit. A third-party auditor, a *Shari'ah* Board, an internal *Shari'ah* inspection and audit governance committee, based on the AAOIFI model is responsible for the *Shari'ah* audit function. Thirdly, the *Shari'ah* Board's independence, as well as the issue and approval responsibility for the product to market, and the control/audit of the IFIs concerned with *Shari'ah*. However, Takaful operators frequently seek to comply as best they can with all applicable standards and regulations, nonetheless the *Shari'ah* audit methods are not established (Puad et al., 2020). Nevertheless, the various problem exists with the risk assessment of *Shari'ah*. *Shari'ah* auditors need to participate actively in the *Shari'ah* Department and committee.

Moreover, it has been shown that the procedure does not properly evaluate the risks, participates in the *Shari'ah* Committee reports and follow-up process. Failure to follow the *Shari'ah* conformity report consistently may lead to incoherencies with its decisions. A vibrant *Shari'ah* audit framework is thus, required to reinforce current practices and make them more consistent (Puad et al., 2020). However, the *Shari'ah* audit is still very far from predicted to emerge in Malaysia. The problem is of the unprovided standards by the regulator, which might not allow the Islamic Banks governance body to conduct proper *Shari'ah* audit. However, several Islamic banks individually formed an internal *Shari'ah* unit to improve the quality of *Shari'ah* auditing (Muhammad, 2018). In addition, the need for an efficient internal audit of *Shari'ah* also gives the regulators urgency to build robust and reliable standards and frameworks to correctly implement the audit of *Shari'ah*. The effective involvement of the Islamic finance industry and regulatory authorities in monitoring and efficiently enhancing credit and transparency is crucial (Laili et al., 2019). Based on these facts, *Shari'ah* audit processes have a performance gap that results in a lack of expectations' and 'lack of performance.

The 'performance gap' in the *Shari'ah* audit practices is due to poor standards and hence low outcomes. It needs to improve the efficiency of the *Shari'ah* Auditors. It has also been



illustrated that unavailable standards are a result of inadequate legal and professional standards on roles and obligations of *Shari'ah* auditors (Salleh et al., 2019). Thus, knowing the *Shari'ah* auditors' present roles within the Islamic bank's sector is crucial in strengthening the structure of *Shari'ah* governance and *Shari'ah* compliance (Isa et al., 2020). As per Arwani (2018) the current position of the *Shari'ah* Board is focused on conformity with the processes of law and completeness of the *Shari'ah* working paper. Thus, it is simply contended that IFIs could easily follow the established norms and processes. However, achieving *Shari'ah* objective is hard without adding value. Thus, IFIs should comply with *Shari'ah* Principle and trigger an inclusive and constant *Shari'ah* control system to always assure *Shari'ah* preservation. Therefore regulators, government, *Shari'ah* scholars and the Muslim community strive to raise this issue (Karim & Shetu, 2020).

Shari'ah Auditor's Incompetency

In relation to *Shari'ah* auditors' incompetency, Bosi & Joy (2017) unveiled that the incompetent auditors in *Shari'ah* and accounting may adversely impact the growth of the Islamic finance industry. Suraya et al. (2018) stated that it is due to the inexperience of IFIs' *Shari'ah* auditors and the lack of technical or academic banking or *Shari'ah* certifications. It is noticed that the vast majority of the auditors are qualified in the field of accounting or *Shari'ah* (Ali & Kasim, 2019; Ali et al., 2018; Ali et al., 2015). The studies show that most of the auditors in the industry do not even qualify *Shari'ah* or accounting and the number of accounting academic background is higher than the *Shari'ah* academic contextual (Arwani, 2018; Shafii et al., 2014; Ahmad & Al-Aidaros, 2015). A subsequent revision by Haridan et al (2018) highlighted the problems of each member of the *Shari'ah* Board's general competency, where essential banking and financial abilities are missing. The inexpert of *Shari'ah* Board members with inadequate professional knowledge could severely affect the governance of *Shari'ah* and might hamper public confidence. The competency of the *Shari'ah* Board members is, hence, crucial to ensure a successful IFIs' governance procedure for the *Shari'ah*. The research has shown that the *Shari'ah* Board members, regardless of either *Shari'ah* and non-*Shari'ah* members, should increase the capacity and readiness to preserve the quality of the *Shari'ah* audit.

Shafii et al (2013) emphasised that the IFIs should defines qualifications of the *Shari'ah* auditors on the quality of knowledge and competency at the institutional level. The *Shari'ah* auditors would also have accounting expertise and *Shari'ah* experience. Annexing *Shari'ah* into the audit department does not question the problem of independence, as the auditing results of *Shari'ah* is presented to the audit committee of the Islamic bank.

Internal auditors in IFIs may invite the *Shari'ah* team to participate in the *Shari'ah* audit team to complete the *Shari'ah* audit efficiently. Internal *Shari'ah* Auditors must hold *Shari'ah* qualifications offered by accredited institutions by Bank Negara Malaysia. Najeeb et al (2014) stressed the likelihood that OIC countries would lose vital economic gains by continual western import accounting qualifications, hence losing tremendous reserves in foreign currency outflows. The study suggested that Malaysia may take the initiative to set up 'ACSAA,' an accountability body that offers the comprehensive audit services of *Shari'ah*, *Shari'ah* accounts for the professionally certified and auditable consultant services of the *Shari'ah* accountants. Members of this organisation can be recognised worldwide as excellent accounting and audit services that comply with the *Shari'ah* and can be transmitted worldwide to students wherever a high Commission Malaysia is exist. This body requires extensive training for its members and students in international accounting and auditing concepts (such as GAAP and IFRS), Islamic accounting and associated principles (AAOIFI regulations,

guidelines, IFSB guidelines), and *Shari'ah* transactional principles (*Usul Fiqh, Fiqh al-Muamalat, Islamic contract law*).

Shari'ah Auditor's Independency

Isa et al (2020) stated that the *Shari'ah* audit should increase its independence by giving approved functional reports and autonomy that are explicitly defined in the internal audit charter. This would be crucial because it would have an impact on the scope and independence of *Shari'ah* auditors in auditing and reporting on audit results. IFIs must also assess the requirement for the establishment and funding of an internal auditing unit as part of the internal training platform for their employees. Moreover, conflict of interest of the professional industry, as auditors were paid by the state-federal system, while now they are paid by institutions they work for; hence it is hard to question and reform their practices (Isa et al., 2020; Suraya et al., 2018; Bosi & Joy, 2017).

Rahman et al (2018) defined four internal *Shari'ah* audit processes, which are preparation, execution, reporting, and follow-up. It is possible to argue that the audit phase of internal *Shari'ah* audit operations is like the technique and methodology of the operational audit. The distinctions are determined as targets and risk types. The internal auditing function of the bank under study applied Risk-based internal audit plan (RBIA) and Committee of Sponsoring Organizations (COSO). RBIA consists of three major interconnected components: the criticality of *Shari'ah* risk exposure; adequacy of controls and risk reduction in place; *Shari'ah* risk management in minimising potential losses. As high-risk areas were emphasised more fully, the auditors have been able to carry out a thorough and successful audit of all three parts. A vigilant audit is also significant that involves end-to-end auditing. Furthermore, the *Shari'ah* audit function should examine the research that goes beyond the established and specified requirements of credible authority, such as *Maqasid al-Shari'ah* achievement (Higher objective of *Shari'ah*). The audit objectives and risk assessments differ in comparison with the operational audit practices. *Shari'ah* decisions would be determined based on the SC, the top *Shari'ah* authority of the Bank. This is a question of the independence and reputation of the SC, given that stakeholders would rely on their *Shari'ah* conformity report for decisions. Haridan et al (2018) likewise described obviously, *Shari'ah* board members efforts in delegating the work of the IFI's internal officers with insufficient technical ability. Internal authorities would thus, conduct an assessment and forward the results to the *Shari'ah* Board for approval. Hence, it appears that without proper diligence decisions of the *Shari'ah* Board it was adopted since they relied mainly on suggestions from the internal officials. Therefore, the *Shari'ah* audit yet facing challenges and issues about the *Shari'ah* auditors' independency, *Shari'ah* audit criteria, training and abilities. This necessitates an immediate attention otherwise, it may impact stakeholder confidence into the IFIs' operations and activities with regard to compliance with the *Shari'ah* (Omar, 2019).

METHODOLOGY

Empirical data were acquired by employing a survey questionnaire. In the self-developed instrument, there were five divisions. Section A covers 10 items on *Shari'ah* audit awareness in Malaysian IFIs. Section B and C featured the Challenge of *Shari'ah* audit (10 items), a recommendation of industrial experts on the audit of *Shari'ah* (6 items). In a four-point Likert scale, respondents were required to evaluate the relative significance of all items in Sections A and C (1: Strongly Disagree; 2: Disagree; 3: Agree; 4: Strongly Agree). The questionnaire was prepared in line with the previous research and the SGF 2010, with the questionnaire being

pretested by several practitioners in 2021 and academics for the relevancy of the subject-matter expert material.

Meanwhile, this study refers to the practitioners as the officers performing supervisory functions under the SGF (2010). Categorizes the functions of *Shari'ah* control to include *Shari'ah* audit, *Shari'ah* review, *Shari'ah* risk management and *Shari'ah* research and advisory. It was carried out in four sections: *Shari'ah* Department, Audit Department, Risk Department, Compliance Department which are directly involved in the *Shari'ah* audit function. They were the most relevant people since their daily work reflects the realities of working practices. Internal consistency of the items was evaluated, and results showed that all items met the Alpha value of Cronbach of 0.7, as Nunnally recommended (1978). It was thus also above 0.6 which in exploratory research are often considered for value (Litwin, & Fink, 2003). In particular, the internal consistency is – Awareness on *Shari'ah* Audit – 0.719, *Shari'ah* audit Challenges – 0.623 and Recommendation on *Shari'ah* Audit Practices – 0.78.

The questionnaire was distributed over four departments including the audit, *Shari'ah*, compliance and risk departments. The respondents (practitioners) were chosen because they represent officers who participate in daily operations and activities in the *Shari'ah* control area which fit in with the study. A total of 40 questionnaires have been distributed and 23 have been returned. The profiles of the respondents are shown in Table 1.

Table 1: Response Rate

Questionnaire distribution	Total
Distributed	40
Received	(23)
Incomplete	(00)
Total usable responses	23
Response rate	57.5%

Source: Author's Own

The population variables of the respondents are shown in this section. The profiles of the respondents are summarized in Table 2. The results show that male 14 (60.87 per cent) respondents had greater participation in the study compared to females (9) (39.13 per cent). In proportion to the findings of the age category, 13 respondents (56.52 per cent) are between the ages of 30 and 40 years old, with 5 (21.74 percent) being under the age of 30.

The 'highest qualification' variable comes next in the category. As per the data, 9 respondents (39.13 per cent) have a bachelor's degree, 12 respondents (52.17 per cent) have a master's degree, and the remaining 2 (8.70) have a PhD degree. Another classification is 'Educational Background.' In accordance with the findings, 9 respondents (39.13 per cent) have a *Shari'ah* qualification, while 4 respondents (17.39 per cent) have an accounting qualification. Whereas five are qualified in finance and two in economics. Three of the responders come from different backgrounds. It denotes that *Shari'ah*-based practices predominate in practice. The respondents' 'job experience' is the following variable. It was discovered that three respondents (13.04) have more than ten years of job experience and are the majority, followed by nine respondents (39.13 per cent) who have five to ten years of work experience, and seven respondents (47.83 per cent) who have one to five years of work experience.

The findings show that the majority of *Shari'ah* audit practitioners have satisfactory professional experience. The term 'organizational affiliation' follows. Pursuant to the results, the bulk of respondents (69.57 per cent) are from Islamic Banking, followed by 7 respondents (30.43 per cent) and the fewest from insurance/ Takaful organizations. The results demonstrate that respondents are found mostly in Islamic financial groups. The last group but not the last



one is the designation of those who took part in the studies. The data show that 10 respondents (43.48 per cent) were from the *Shari'ah* Department, 8 respondents (34.78 percent) were from the audit departments, 2 -2 were from the Compliance and Risk Department (8.70 percent), and one was from another department (4.35). The results show that the majority of respondents are from the *Shari'ah* department.

Table 2: Profile of Respondents

Variables	Frequency	Percentage
Gender:		
Male	14	60.87%
Female	9	39.13%
Total	23	100.0
Age:		
Below 30	5	21.74%
30 to 40	13	56.52%
41 to 50	5	21.74%
Total	23	100.0
Qualification		
Degree		
Bachelor	9	39.13%
Masters	12	52.17
PhD	2	8.70%
Total	23	100.0
Education Background		
<i>Shari'ah</i>	9	39.13%
Accounting	4	17.39%
Finance	5	21.74%
Economics	2	8.70%
Others	3	13.04%
Total	23	100.0
Duration of Service		
1-5 Years	11	47.83%
5 to 10	9	39.13%
More than 10 Years	3	13.04
Total	23	100.0

Source: Author's Own

FINDINGS

The results of this study encapsulated that the awareness of the *Shari'ah* audit is satisfactory among them, as most of the *Shari'ah* auditors learnt *Shari'ah* audit through training. The findings also demonstrate that there is a dearth of an independent audit report, an independent audit framework for the *Shari'ah* audit, and incompetent *Shari'ah* auditors to perform *Shari'ah* audit effectively.

Recommendations on Shari'ah Audit Practices

This section presents the findings involving the recommendation on *Shari'ah* audit practices. The result for the statement indicates that 'The current practice of *Shari'ah* audit in Malaysia signifies that the future of *Shari'ah* audit is bright' confirm that the future of *Shari'ah* audit is illuminated. In addition, the results for the statement 'A professional body in charge of *Shari'ah* audit should be established and given the responsibility of issuing professional certificate alike with ACCA, CIA, to name a few' demonstrate that 'A professional body in charge of *Shari'ah* audit should be recognized and issues professional certificate like with ACCA, CIA. Similarly, the results for the statement 'A comprehensive *Shari'ah* audit framework and standard guidelines for *Shari'ah* audit is to be developed for *Shari'ah* auditors' show that IFIs enormously need to develop a comprehensive audit framework for *Shari'ah* auditors.

Likewise, the results for the statement 'Offering academic programs in higher learning institution on *Shari'ah* audit could help in providing knowledgeable and competent *Shari'ah* auditors' depict that offering academic programs in higher learning institutions unanimously produces knowledgeable and competent *Shari'ah* auditors for IFIs. In the same vein, the outcomes for the statement 'Competence of *Shari'ah* audit practitioners could be improved through training, workshops, seminars and others similar' reveal that competency of *Shari'ah* auditors and practitioners will certainly improve through training, workshops, seminars.

Lastly, the results for the statement 'Do your institution has enough specialized and competent human capital in *Shari'ah* audit' indicate that IFIs has enough specialized and competent human capital in *Shari'ah* audit.

Suggestions to Enhance Shari'ah Audit Practices in IFIs.

This section also provides suggestions that are recommended by experts to enhance the *Shari'ah* audit practices in IFIs. Respondents were free to respond based on their expertise and experiences. The suggestions by the experts are listed as follows:

1. Competency

IFIs need to open more professional certification courses related to this field to have more experts in the industry, *Shari'ah* auditors should be diversified with various knowledge and skills in the Islamic finance industry. Additional educational resources like books, reports shall be available in the market to increase awareness of the *Shari'ah* audit. The findings of the study concur with the statements of the following authors: Haridan et al (2018), Karim and Shetu (2020), Isa et al (2020), Ali et al. (2018). Furthermore, it is also stressed in the results that competency is a major challenge that IFIs needs to tackle.

2. Regulatory Framework

IFIs should improvise the rulings, additionally, an operational perspective, thus, to set one of the Islamic banking institutions in Malaysia as a role model to other IFIs in order to follow on in light of *Shari'ah* Audit. A framework on *Shari'ah* Audit is required to ensure harmonization and standard of practices; however, it must be crafted carefully to balance between the possible emerging risk and challenges, and therefore it will not hamper the creativity of *Shari'ah*

Auditors. The area to cover during *Shari'ah* audit shall be not limited to certain aspects but shall be covered end to end process of the IFIs, the Issuance of standards/policy for *Shari'ah* audit by regulators. These suggestions are in accordance with the following authors: Karim et al (2020), Khalid et al (2020), Puad et al (2019), Isa et al (2020), Shafii et al. (2020), Yaso, et al (2020). It is emphasized in the results, that the most critical challenge faced by IFIs in the absence of *Shari'ah* audit legal framework.

3. *Transparency*

IFIs should have an external auditors appointed by the Central bank. IFIs need *Shari'ah* Committee members who comprehend both theoretical and practical aspects of Islamic Finance. There were instances where the *Shari'ah* Committee was inclined towards supporting the business and not being neutral on the issues presented by *Shari'ah* Audit due to being heavily influenced by the business. It is in line with the following authors' views; Rahim (2017), Isa (2020) Rahman, (2018), Haridan et al (2018), Omar (2019). As highlighted in the findings, transparency is also a concerning issue raised by respondents.

CONCLUSION

Current study provides practitioners' suggestions to resolve the *Shari'ah* audit challenges. The study employed a quantitative approach by survey data. The findings showed that there are three spheres that need a crucial consideration into the IFIs; 'an independent *Shari'ah* audit standard' 'To enhance the competency of the *Shariah* auditors' and 'To fortify the independency of the *Shariah* auditors. The practical implication of this study in general is, the IFIs would realize the rectified gap by the current study and conduct *Shariah* audit function efficiently that eventually strengthen the stakeholders' confidence in addition the customers. However, Malaysia is the leading country in Islamic finance it needs to strengthen the role of *Shari'ah* audits in IFIs by SAC (BNM). The study also helps practitioners to understand the competencies that they are currently required. So, they can meet their tasks with due care and expertise. This study addressed the regulators and the policymakers to explore the current obstacles and to resolve them by the suggestions of the experts. The study contains a few limitations such as the sample area for the study being confined to Klang Valley area. This research was also unable to perform ANOVA on religious differences as the sample consisted of largely Muslim's respondents. Due to these factors, the generalisation of the study's findings will be visibly restricted. Finally, the study provides insights into the educational sector that inclusion into their audit curriculum of the *Shari'ah* audit is enormously needed. The practical implication is that universities will generate competent professional in both *Shariah* and other audit related skills. Surely this will help IFIs in Malaysia to overwhelm from the current challenges.

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