

FOLLOW UP IN SHARIAH AUDITING: MULTIPLE APPROACHES BY TAKAFUL OPERATORS

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ABSTRACT

The growth of Islamic finance in Malaysia has been supported by strong financial institution structures and a robust regulatory framework. This include the function of shariah audit which has become mandatory since the issuance of Shariah Governance Framework in 2011 and it recently has been further enhanced in the Shariah Governance policy document 2019. The main objective of the shariah audit function is to provide independent evaluation and objective assurance designed to add value and improve Shariah compliance among Islamic Financial Institutions. To ensure the effectiveness of this function, the shariah audit process must be conducted comprehensively. However, the insufficiency of specific shariah audit guidelines becomes the challenge for auditors to conduct a comprehensive shariah audit procedure including the crucial final stage; follow up process. Therefore, the main objective of this study is to analyse the approaches of follow-up process which have been practised by Takaful Operators in Malaysia. A series of semi-structured interviews were undertaken with the auditors in Malaysian Takaful Operators who were involved directly in the shariah audit process. This study offers in-depth explanation on the follow-up process and provides recommendations on the characteristics of the best practice to be adopted for the follow-up process. The recommendations from the study are useful in enhancing the current shariah audit practices as well as improving the shariah audit quality.

Keywords: shariah audit, Takaful, audit process, follow up

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INTRODUCTION

Shariah auditing is one of the key activities for Islamic Financial Institutions (IFI) since there is a growing awareness among IFI that such institution should contribute to the achievement of Islamic law objectives. Shariah audit is described as an independent assessment performed periodically to improve the level of compliance and ensure the effectiveness of the Shariah

control system (Shafii, Abidin, Salleh, Jusoff, & Kasim, 2013). The function of shariah audit is expected to enhance the shariah compliance in IFI including Takaful Operators. According to Muhammad (2011), the compliance issue is one of the most crucial factors in determining smooth and successful IFI operations. Besides, in the Islamic finance industry, any failure by IFI would cause significant harm to the IFI, because it would expose itself to the risk of shariah non-compliance. The occurrence of shariah non-compliance in IFI would lead to credibility risk or reputational risk.

Compliance with shariah principles in Islamic financial activities through shariah audit practices is important to enhance the credibility of IFIs (Ghani, Ariffin, & Rahman, 2019). A sound shariah auditing process should be in place to provide an environment for quality shariah compliance assurance. The specific shariah auditing guideline is very relevant as it serves as an added value for Islamic financial institutions. However, this shariah audit function was pronounced very briefly in SGF and caught the attention of researchers who then asked for a specific framework to be developed for shariah audit. (N. L. Ahmad, Ahmed, & Wan Mustaffa, 2017; Kasim, Mohd Sanusi, Mutamimah, & Handoyo, 2013; Yusoff, 2013)

Exploring the shariah audit process could provide a detailed understanding of shariah audit practices. Besides, there is a dearth of literature covering the process of shariah audit in detail. A study by Rahman, Matsuki, Kasim, and Osman (2018) revealed that there are four major steps in the shariah audit process which include planning, execution, reporting and follow-up. This study will only focus on the follow-up process since this stage is very critical in determining whether the audit recommendations are well addressed by the management. Follow-up in auditing is also the benchmark for measuring the audit performance of any organization (Umor, Zakaria, Sulaiman, & Kutty, 2018).

Thus, from the issues discussed above, the objective of this study is to provide an in-depth analysis on the follow-up process in shariah audit as practised by Takaful Operators in Malaysia. This paper is divided into four main sections. The literature review section discusses the concept of Takaful and history of Takaful, definition of audit and the shariah audit process and finally the follow-up process in auditing. Section three features the discussion on study design and methodology. Section four presents the substantial findings, and the final section contains the concluding comments.

LITERATURE REVIEW

Takaful and History of Takaful

The tribal Arabs have practised some form of insurance and mutual assistance scheme since the pre-Islamic period, which were later approved by the Prophet (pbuh) (Htay, Hamat, Wan Ismail, & Salman, 2015). The foundation of this insurance was laid down in the system of al-Aqilah which means a joint guarantee by a group of individuals to help each other in times of disaster or misfortune (Sadeghi, 2010).

This system was introduced to replace the ancient blood ritual calling for blood and to curb the fury of battle between the various warring tribes (Htay et al., 2015). This covers unintentional murder where the entire tribe mutually agrees to provide financial compensation as blood money. In a similar manner, a system called al-Aqilah was introduced as a covenant of mutuality formed between the Meccan immigrants and the native residents of Medina whereby members pay their annual contributions through a fund called al-Kanz. This fund will be used to pay compensation on behalf of a member who is liable to pay a diyat. This doctrine was approved by the Prophet (pbuh), and later made mandatory by the second caliph, Umar Al

Khattab. Clearly, it can be said that the concept of insurance has existed and was well organized during that era (Hussain & Pasha, 2011).

This Islamic insurance system then continued until the period of Umar Abdul Aziz who was also known as among the Islamic leaders who were exemplary in fulfilling their role as a ruler (Razif & Rodi, 2017). By the end of the eighth century, Muslims had developed marine science, marine navigation, and had built a strong naval unit in the Mediterranean which then led to the need for insurance to cover their losses from the perils of the sea (Alhabshi & Abdul Razak, 2009). Among the perils include fire, war perils (enemies), pirates, rovers, thieves, captures, seizures, restraints or explosions and others. Based on the principle of 'helping one another', they contributed to a fund prior to starting their voyage and used it to compensate any of them who had incurred losses. This was the start of marine insurance which of course has been much modified today.

During the 19th century, Ibn Abidin, a Hanafi scholar discussed the idea of insurance as a legal institution, and not as a customary practice. Ibn Abidin's opinion served as an eye-opener to many Muslims, who had not accepted the legality of insurance practices. His idea thus prompted other Muslims to accept the idea of involvement in the insurance business (Salman & Htay, 2013). Thereafter, the Muslims began to practise insurance not only by buying it from foreign companies, but also by establishing insurance companies of their own and becoming insurers themselves.

Subsequently in the 20th century, the well-known Islamic jurist Muhammad Abduh issued two fatwas between 1900-1901, allowing insurance practices. In his fatwa, he used several sources to show why he is of the opinion that life insurance was permissible in Islam (Islahi, 2014). One of the fatwas viewed the relationship between the insured and the insurance group as a mudarabah contract, while the other fatwa legitimizes a transaction similar to endowment life insurance.

Generally, Takaful is an insurance product which is based on shariah principles. IFSA 2013 provides the definition of Takaful as "an arrangement based on mutual assistance under which the takaful participants agree to contribute to a common fund providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of a pre-agreed event". On the same ground, AAOIFI has defined Takaful as "a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and investing the insurance contributions".

Besides that, Malaysian Takaful Association (MTA) had laid down three main concepts in a Takaful arrangement known as mudarabah, tabarru' and wakalah. Based on these three concepts, there are a few principles applied in Takaful namely brotherhood, solidarity, mutual assistance and donations. The initial idea of Takaful is to safeguard the people explicitly, when they need assistance or are facing any difficulty (Sharifuddin, Kasmoe, Taha, Taalat, & Taalat, 2016). This is related to the principle of living in a community that when one person faces a problem or vulnerability, the rest of the people will help that person who incurs the loss. Thus, Takaful is basically a mutual compensation mechanism based on the Ta'awun principle of mutual assistance (Noor & Rahman, 2016).

Shariah Audit: Origin, Nature and Process

Historically, Islam introduced the concept of Hisbah which is in accordance with the concept of amar maa'ruf and nahi munkar which means enjoining the good and forbidding the evil (Bashar & Dutsin, 2018). The role of this Hisbah institution is to supervise, regulate and prevent fraudulent consumer exploitation on the environment and extends back to the time of

Prophet Muhammad (pbuh) and the first four Caliphs (Imran, Ahmad, & Bhuiyan, 2012). During the period of Prophet Muhammad (pbuh), efforts have been made to bring the aspects of economics, religion, and socio-cultural life of the people to promote ethical values in the Muslim society then. Through observation, some assistants appointed to promote oversight were practising Hisbah in the early days of Islam by the caliphs themselves (Mohd Arif & Markom, 2018).

With the implementation of Hisbah, the purpose of Shariah which is described as the goals or Maqasid Shariah can also be achieved. By understanding the concept of Hisbah, it proved that Hisbah should be the foundation for shariah auditing. There are a few studies which proposed the application of Hisbah for shariah auditing (Abdul Manaf & Che Pa, 2017; Hakim 2017; Nurhasanah, 2013). Despite the encouragement towards the application of Hisbah for shariah audit function, there are also studies which proved that the concept of Hisbah is relevant to empower other institutions beyond financial institutions such as the role of mosques, human management, Islamic councils and also Islamic work ethics (M. M. A. Ahmad, Mustafa, & Nordin, 2016; Attahiru, Al-Aidaros, & Md. Yusof, 2016; A. Ibrahim, 2017; A. Q. Ibrahim, Hj. Don, & Asha'ari, 2017). Thus, it is agreed that the concept of shariah audit today should replicate the role of Hisbah.

The new policy document of shariah governance has defined Shariah audit as an independent assessment on the quality and effectiveness of the IFI's internal control, risk management systems, governance processes as well as the overall compliance of the IFI's operations, business, affairs and activities with Shariah. From another point of view, AAOIFI's Governance Standard for IFIs no. 3 elaborates the objective of shariah audit as: *"The primary objective of the internal shariah review (carried out by an independent division or part of the internal audit department) is to ensure that the management of an IFI discharges their responsibilities in relation to the implementation of the shariah rules and principles as determined by the IFI's Shariah Supervisory Board (SSB)"*.

Understanding the concept of shariah audit is very significant, because it may impact how shariah auditing is to be executed. Combining the definition provided by AAOIFI and the policy document on Shariah Governance presents a detailed overview of shariah audit. Besides that, shariah audit should also consider integrating the elements of Maqasid Shariah together in enhancing the shariah audit role. In Islamic finance, the important aspect of Maqasid Shariah is the protection of property, which will result in the fulfilment of the needs of stakeholders including society as a whole (Kamaruddin & Hanefah, 2017).

Shariah audit process are the steps involved in performing the shariah audit function which is performed by auditors (Hanefah, Shafii, Salleh, & Zakaria, 2012). Figure 1 below explains the stages in a typical audit process.

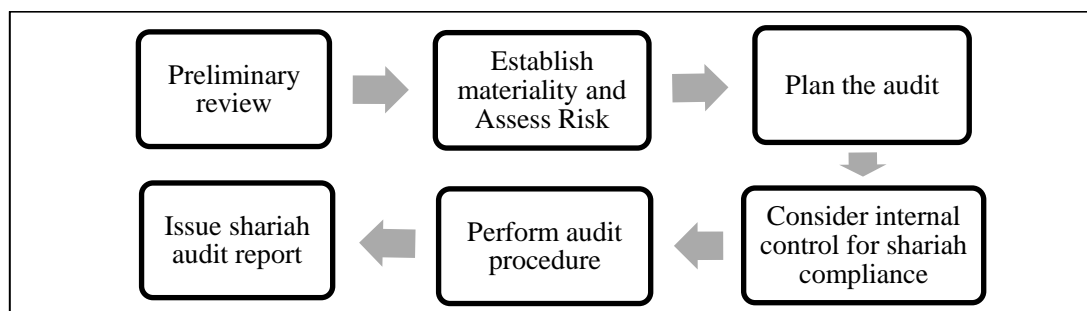


Figure 1 Shariah Audit Process
Source: Adopted from Hanefah et al., (2012)

Based on SGF 2011, the Shariah audit process is set up to allow the IFI to evaluate whether a sound and efficient Shariah compliance internal control system has been implemented. The process should, but is not restricted to, cover the following activities shown in Figure 2:

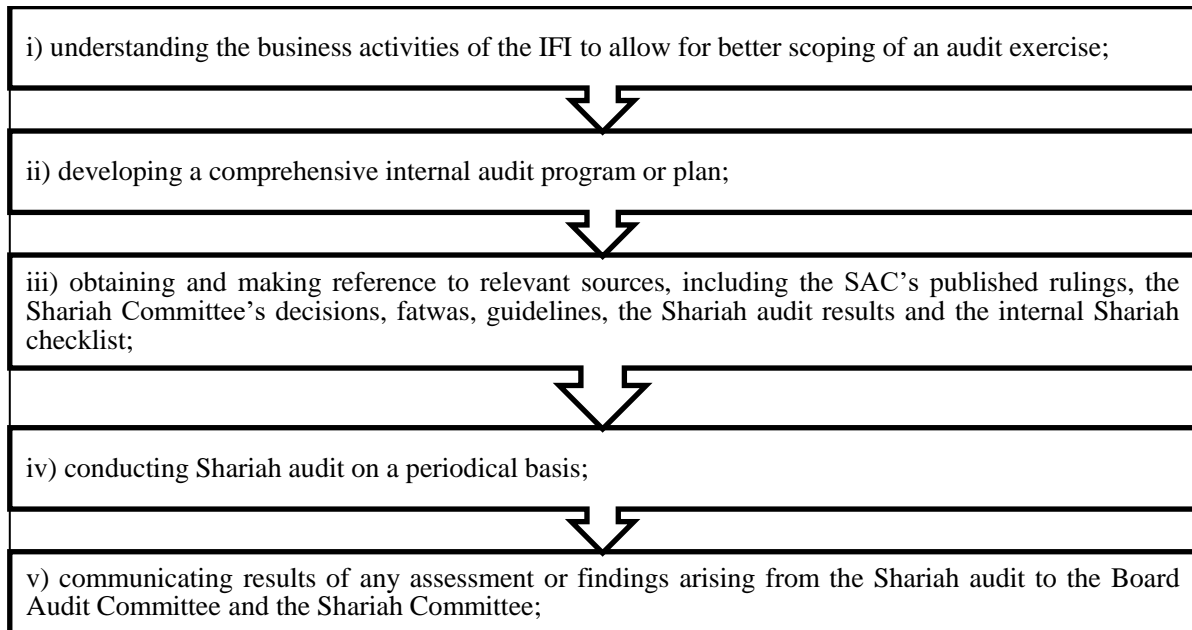


Figure 2 Shariah Audit Process based on SGF 2011
 Sources: SGF (2011)

Figure 2 above exhibits the shariah audit process as recommended by SGF 2011. This is the minimum process that should be covered by an auditor, but the auditor might go beyond this as to provide reliable output. The audit program developed shall include objectives, scope, personnel assignment, sampling, control and duration as well as established audit processes, policies and procedures of IFI's operations.

On the same ground, Hanefah et al. (2012) highlighted on the critical features of the shariah audit process as shown below:

Table 1: Features of Audit Process

Shariah Audit Process	Critical Feature
Plan	<ul style="list-style-type: none"> Go through preliminary review as tools to perform the sampling Performing the sampling
Execution	<ul style="list-style-type: none"> Conduct internal control evaluation For external auditor: internal audit is part of the plan because they want to rely on reporting and so on. For internal auditor: part of execution scope of internal audit because one of the objectives of internal audit is to look into the control. Thus, internal control evaluation is a major scope in internal audit itself.
Audit Report	<ul style="list-style-type: none"> Shariah audit report is presented to audit committee, then the appropriate decision will be made by the board

Source: Adopted from Hanefah et al., (2012)

In another study, Lahsasna and Hameed (2015) proposed the methodology for shariah auditing for Islamic finance. According to that study, good audit evidence should have several features which include sufficiency, appropriateness, reliability, relevance and persuasiveness. In addition, there are a few rules that need to be observed by auditors such as:

1. Documentary evidence is preferred to evidence of testimony;
2. It is preferable to obtain evidence from distinct sources or of a distinct nature;
3. Original papers are better than photocopies;
4. Evidence gathered from third parties is better than evidence gathered from within the organization; and
5. Direct evidence obtained by the auditor through personal observation or inspection is better than the evidence gathered indirectly.

The sources for audit evidence can be obtained from two sources; primary sources and secondary sources. Primary evidence is the data personally collected by the auditor, while secondary evidence is the information collected by the audited institution or data collected by third parties. Lahsasna and Hameed (2015) further suggested on shariah audit methodology which can be summarized below in Table 2:

Table 2 Shariah Audit Methodology

Phase	Description
Planning Phase	<ul style="list-style-type: none"> • Understanding the business of IFI • Understanding the Contracts Appropriate for the Business • Identifying the appropriate evidence gathering techniques • Developing proper audit plan
Examination Phase	Examination or the actual field work is a very important decision in the audit methodology. Examination is the implementation of the initial audit plan and this is the phase which will make the entire procedure a successful one. Among the techniques that can be used include examination of papers, interviewing, direct observation, benchmarking, surveys, case studies and so on.
Reporting Phase	Part 1: Executive summary <ul style="list-style-type: none"> • Introduction • Overview • Audit objectives and scope • Risk profile • Rectification of previous finding • Audit assessment • Management discussion • Conclusion Part 2: Detailed finding <ul style="list-style-type: none"> • Current audit finding • Status of previous audit finding Part 3: <ul style="list-style-type: none"> • organization chart • Photograph Appendices

Audit Documentation Phase	Audit documentation is the cornerstone of the auditor's findings and supports his report. It also provides an assessment of the work's quality and standard by presenting written evidence supporting the auditor's findings. Audit documentation is also referred to as working papers or work papers. These are the papers that record the overall activities of the auditor during the auditing process and the results and conclusions drawn by him from the audit evidence.
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Sources: Adopted from Lahsasna and Hameed (2015)

Follow Up in Auditing

A follow-up audit is an audit designed to determine the efficacy of an officially closed corrective action after all findings have been recommended for closure through the follow-up audit process. The Chartered Institute of Internal Auditors (2018) highlighted that follow-ups can be a good way of persuading management to enforce internal audit recommendations as follow-ups will show the importance of internal auditors and how they regard the recommendations' implementation. According to (Institute of Internal auditors, 2014), follow up audit is described as follows:

“the process by which internal auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others.”

This follow up process also involves considering if senior management and/or the board took the risk of failing to take corrective action on the observations reported. There are two primary objective of follow-up auditing as described by (Ince, 2016) namely: 1. Was the recommendation implemented as described in the plan of action submitted by the management? and 2. Did the recommendation and plan of action result in the intended effect of mitigating the risk that had necessitated the recommendation in the first place? In addition, the follow-up should concentrate on determining the progress achieved in addressing the originally identified problems. If the auditors go beyond that emphasis, they'd easily run out of the follow-up mechanism spirit.

According to Russell (2019), in order for an audit program to be successful, the audit and the follow-up must go together. While the audit gathers information on the current process or procedure, the follow-up audit provides information on the activities of the auditee (or process owner) to resolve the issues that were identified during the audit. It was found by Setyaningrum, Gani, Martani, and Kuntadi (2013) that audit findings and the audit report recommendation reflect the quality of the report. In fact, the whole audit process would become more effective if the auditee followed the recommendations.

Chambers (2019) disclosed several excuses given by the management when they failed to follow the recommendations proposed by auditors such as underestimating the complexity and period taken to complete the action, change of circumstances that renders the action invalid and limited resources. All these excuses sometimes become the reason for the failures in the follow- up process. Looking at these circumstances, IIA had come up with greater detail on how a follow- up audit can be designed and implemented in its Implementation Guide for Standard 2500. In designing such a process, the guidance adequately emphasizes that internal auditors should seek feedback from management on how to build an effective and efficient monitoring process.

RESEARCH METHODOLOGY

The purpose of this study is to gain an in-depth understanding on the follow up approach in shariah audit by Takaful Operators in Malaysia. Through this study, it is very significant for the researcher in contributing to the knowledge related to the subject of shariah audit and specifically on the details of the follow-up process which relates to the behaviour. In view of the nature of the subject analysed, this study uses a qualitative approach as its concern is directed to “subjective assessment of attitudes, opinions and behaviour” (Kothari, 2004). Through this approach, this analysis is therefore about accumulating words rather than figures which are represented by different lenses of quantitative methodology. The data collected using interview method contributes in anticipating key facts particularly in the follow-up audit process as the most suitable interviewees involved as the respondents in this study.

Several reasons lie behind the adoption of qualitative study which includes the objectives of the study and availability of the opportunity in seeking as many dimensions which contribute to the discovery of information and experiences on the focused subject. Currently, there are 15 Takaful Operators in Malaysia which include family and general Takaful providers. Table 3 below lists the 15 Takaful Operators in Malaysia:

Table 3: List of Takaful Operators in Malaysia

No.	Name of Takaful Operator	Year of establishment
1	AIA PUBLIC Takaful Bhd	11 th March 2011
2	AmMetLife Takaful Berhad	30 th April 2014
3	Etiqa Family Takaful Berhad	2007
4	Etiqa General Takaful Berhad	2007
5	FWD Takaful Berhad	2019
6	Great Eastern Takaful Berhad	10 th December 2010
7	Hong Leong MSIG Takaful Berhad	2006
8	Prudential BSN Takaful Berhad	2006
9	Sun Life Malaysia Takaful Berhad	January 2013
10	Syarikat Takaful Malaysia Am Berhad	29 th November 1984
11	Syarikat Takaful Malaysia Keluarga Berhad	29 th November 1984
12	Takaful Ikhlas Family Berhad	18 th September 2002
13	Takaful Ikhlas General Berhad	18 th September 2002
14	Zurich General Takaful Malaysia Berhad	2 nd August 2016
15	Zurich Takaful Malaysia Berhad	2 nd August 2016

Source: BNM (2019)

For the purpose of this study, only six (6) Takaful Operators were selected to meet the research design of this study. The criteria for choosing the respondents are those who are directly involved in the process of shariah audit and have more than three (3) years working experience. We eventually had conducted 12 interviews in which two (2) respondents come from each of the six (6) Takaful Operators selected. The details of respondents are shown in Table 4 below.

Table 4: Details of Respondents

Respondents	Gender	Role	Years of experiences in organizations	Years of experiences in industry
R1	Male	Shariah auditor	11-15 years	16-20 years
R2	Female	Shariah auditor	11-15 years	11-15 years
R3	Female	Shariah auditor	6-10 years	11-15 years
R4	Male	Shariah auditor	6-10 years	6-10 years
R5	Female	Shariah auditor	11-15 years	16-20years
R6	Female	Shariah auditor	6-10 years	10-15 years
R7	Female	Shariah auditor	6-10 years	10-15 years
R8	Male	Shariah auditor	6-10 years	6-10 years
R9	Female	Shariah auditor	6-10 years	6-10 years
R10	Female	Shariah auditor	6-10 years	6-10 years
R11	Male	Shariah auditor	6-10 years	6-10 years
R12	Male	Shariah auditor	6-10 years	6-10 years

It can be assumed, based on the information of the respondents, that all of them are highly competent, have considerable experience and play a dominant role in their respective organizations. The researcher had conducted the interviews through face-to-face sessions. From the interview sessions, the researcher received different responses and it is believed that the respondents provided honest information and answers based on their experiences. The data collected were recorded and the notes were taken for analysis during the interview. The researcher then transcribed the recorded interview data to obtain a general idea of interviewee responses immediately after the interview sessions.

The study used thematic analysis to try to define main themes for the follow-up process (Bryman, 2012). The study findings provided details on the shariah audit follow-up process as practiced by Takaful Operators and identified the best characteristics for the follow-up process.

FINDINGS AND ANALYSIS

The main purpose of this study is to provide details on the follow-up process in shariah audit and to give recommendations of best practices to be adopted in the shariah audit follow-up process. The analysis part will begin with the description of the follow-up process together with the analysis on the best practices. The best practices for the follow up will be determined based on the characteristics highlighted in the previous literature.

Follow-Up Process and Best Practices

The purpose of follow-up is to ensure that management has implemented the action and addressed all the issues. The follow-up stage also serves as a monitoring function for the management (Simpson, 2019). Monitoring is close surveillance of internal audit processes that can lead to success. It is important to follow up and ensure that the entire audit process has been followed and is in line with the objectives of the organization (Gurama & Mansor, 2018). In the follow-up stage, the auditors have to ensure their auditee complies with timelines which have been determined in the report. Figure 5 below illustrates the different types of follow-up processes as practiced by Takaful Operators:

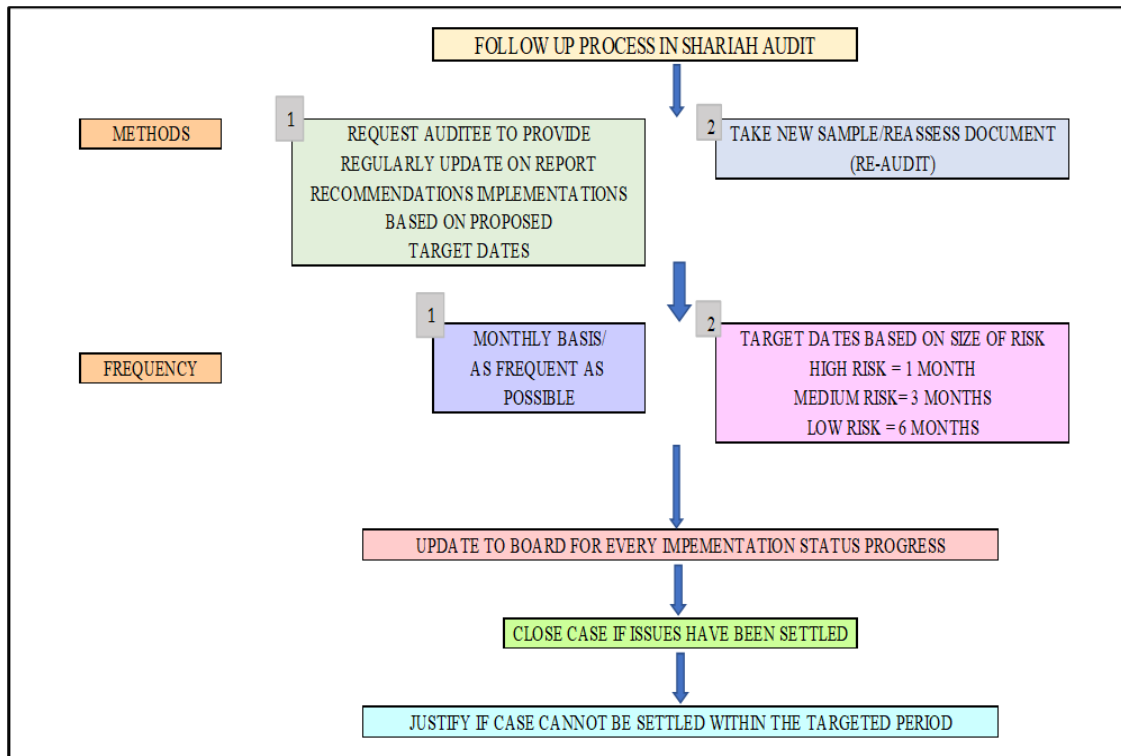


Figure 5: Illustration of Follow-Up Process in Shariah Audit
Source: Researcher (2019)

The normal frequency of follow-up is on monthly basis. For example, if they issue the report in August and then agreed in the plan that the auditees have to submit the results in November, the procedure is the auditor will ask for their progress every month until the month of November. This is the normal practice of follow-up which is practiced by majority of Takaful Operators. Usually, the auditor will have to do a follow-up if there is any finding. But if there is no finding, the auditor will still be informing the respective business unit.

There are also Takaful Operators which perform their follow-up based on the risk level. The greater the risk of the findings, the more frequent the follow-up will be done by the auditors. Normally, when the auditors have rated the finding as high risk, the auditees have to take action one month after exit meeting and then the auditees have to rectify the issue based on the findings. Then, if it is rated as medium, the audit committee has decided that three months after the exit meeting, they have to respond. Finally, for the low risk finding, the time given would be 6 months.

Normally, there are two types of follow-up; formal follow-up and informal follow-up. Formal follow-up is in the form of a reminder to the auditees through email before the timelines are up. The purpose of the email is to remind the auditee that the follow-up process will be done two weeks before closing the issues. In the two weeks' time which is before the deadline for closure of issues, the follow-up will be more frequent i.e. through phone call and this is known as informal follow-up. Normally, in this condition, the auditors need to obtain the related documents. The maximum duration for informal follow-up is usually up to 30 days for the auditors to review the document before closing the issues.

One of the Takaful Operators adopt a different practice as the auditors claim that during follow-up, they will take a new sample, reassess the process and document everything. If the rating is low or medium, the document of the follow-up action must be approved by their head of department whereas if the rating is high, the document of the follow-up action must be approved by Chief of Internal Audit. The new sample selected would be based on their audit

manual which is either daily frequency or monthly frequency. This follow-up process is tedious and time-consuming as it requires the process of re-audit. However, this is the best follow-up process as it provides the best monitoring system for the whole management. This type of follow-up also requires sufficient resources in terms of time and staff.

After the follow-up, normally the auditors will have to table the report on the updates or actions taken to BAC. Even if there are any pending issues, the auditors still have to report to the BAC and provide reasonable justifications for the pending issues. The issues will only be closed if the auditors conclude that all controls are in place. There are also cases where the auditees request for extensions. If this happens, the auditees have to request for the approval from the Chief of Internal Audit.

Generally, all Takaful Operators have conducted their follow-up stage of shariah audit similar with their operational audit. The most important part in this follow-up stage is to ensure that management can meet the deadline and the rectification has been performed accordingly. It is very important to study how IFIs conduct their follow-up as this is also part of the monitoring function. In fact, International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA) have provided guidance in this area in Standard 2500 – Monitoring Progress and Standard 2600 – Communicating Risk Acceptance. The follow-up process also enables the auditor to determine the efficiency of the risk reaction of management (Chartered Institute of Internal auditor, 2018).

According to Simpson (2019), follow-up is a critical part of the recurring job of shariah audit as it is the monitoring of management behavior against agreed recommendations from the various audit reports published. Management is responsible for resolving problems and managing agreed actions. Follow-up is also required because one significant measure of the effectiveness of internal audit function is its success in achieving a high implementation rate of recommendations made in audit reports. This is consistent with the study by Setyaningrum et al. (2013) which proved that the more recommendations are implemented, the better the quality of the audit process and because of that, the auditors need to obtain justification if the auditee cannot implement the proposed recommendations within the given deadline.

Follow-up actions could also be one of the variables in measuring efficiency of risk management (Iskandar, Jamil, Yatim, & Sanusi, 2018). In addition, the follow-up process should include periodic communication on implementation status with those to whom the recommendations were addressed, along with inquiries for documentation in support of implementation actions (Kenessy, 2014). For this purpose, auditors need to follow up as frequent as possible until the necessary action has been taken by the auditee as practised by Takaful Operators.

There are also a few Takaful Operators which conduct the follow-up stage based on the risk of the findings. The higher the risk, the more frequent the follow-up will be done by the auditors. This risk-based follow-up approach can be considered as the best approach for conducting shariah audit. As mentioned by Gwilliam (2016), follow-up actions should focus on using a risk-based approach as it will assist management to concentrate on allocating the appropriate amount of resources to address risks. A truly risk-focused follow-up plan is aimed at the higher priority risks regardless of the organizational context or internal audit review within which the recommendation was made (Chartered Institute of Internal auditor, 2018). Table 5 below provides quotes from the respondents on the follow up process.

Table 5: Quotes on Follow-Up Process

Themes	Quotes
Follow-up process	<p><i>“We will follow up based on issues. For example, we put a timeline that by October, the auditee will settle this SOP. So, by October, we will check whether they have completed the SOP or not. If they have finished, then they will submit the SOP to us and make sure the SOP has been signed off. We will review the SOP and we will see whether whatever that we commented have been put in or not in the SOP”. (R1)</i></p> <p><i>We will do the follow-up process until the auditee settles their task and only then we will close the file. This also relates to their Key Performance Indicator”. (R3)</i></p> <p><i>We have three ratings; high risk, other risk and area for improvement. So, for high rated risk, they need to take action within one month. For other risk, within three months and for area for improvement within six months. So, let’s say if they exceed the timeline given, then they need to request for further approval because we want them to be responsible.” (R5)</i></p> <p><i>“Every month we will do a follow-up...” (R7)</i></p> <p><i>“Our rating here can be categorized into three; satisfactory, needs improvement and ineffective. Of course, being ineffective is bad, so we need to make sure that they need to take immediate action for improvements. Needs improvement means that there are certain things that they need to improve. We also have a management control rating. This rating is to assess the management control”. (R8)</i></p> <p><i>“Follow-up will be done based on the level of the risk. If there is a high-risk case, follow-up would be as frequent as possible until we reach the targeted deadline...” (R11)</i></p> <p><i>“Formally, during the beginning of the month, for example like one month before the timeline, we will send an email to the audit client just to remind them that the follow-up process will be done two weeks before the issue is to be closed. And two weeks before the issues are closed, the follow-up will be more frequent because we need to obtain the necessary documents. 30 days is the maximum number of days for us to assess the document before we close the issues.” (R12)</i></p> <p><i>“Here, the follow-up process is quite different from others. Normally, follow-up will be like we check whether the auditee has taken action or not. However, here</i></p>

follow-up is like you are doing audit all over again. Take a new sample, reassess the process and document everything...” (R2)

“Under follow-up, we will follow up the issues. We have to revalidate whatever supporting document given by auditees. If we see that all controls are in place, only then we will close the issues. All the follow-up progress will be notified to the audit committee”. (R5)

Source: Researcher

Based on the above discussions, the characteristics for the best follow-up process would be identified as frequent follow up. This is in line with the study by Masood and Lodhi (2015) which discovered that if management is placed under pressure by internal auditors to carry out follow-ups, they may be forced to adopt the recommendations since the internal auditors follow up on the implementation process regularly. However, frequent follow-up may require a lot of resources. As an alternative, follow-up based on the risk level would help in distributing proper amounts of resources which can increase efficiency in the use of resources.

Besides that, conducting follow-up by performing re-audit and taking a new sample also could be considered as a best practice. Taking a new audit sample would ensure the same risk would not happen for the second time and thus provides the best monitoring system. Other than that, the success of the auditee in resolving the issues in the audit finding can be counted as part of the key performance indicator for each department in order to motivate them to resolve the issues in the stipulated time. Organizations should have a scheme which makes the regulations favourable in order to encourage action on audit recommendations (Newman, Alban, Sitcha, & Ongayi, 2019).

Effective communication is also very important between the auditor and the management to accomplish the goals together besides working hard during the follow-up stages. Figure 6 below summarizes the characteristics of best practices to be adopted during the follow-up process:

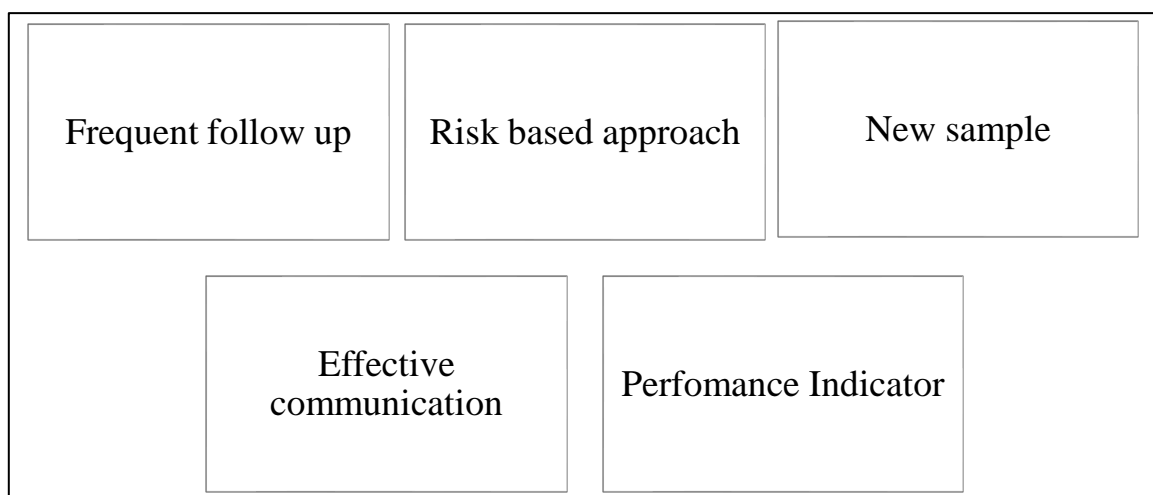


Figure 6: Characteristics of best practices to be adopted during follow-up process

CONCLUSIONS

The findings of this study provide a detailed analysis of the follow-up process as described by the respondents and provides recommendations on the characteristics of the best practices to be adopted in the follow-up stages. It is found that the Takaful Operators are very optimistic in improving their shariah audit practices from time to time in order to achieve the effectiveness of shariah audit. As with other empirical studies, this study also has several limitations. First, the study only covers the Takaful industry and only adopts qualitative methodology.

Even with certain limitations, this study still contributes toward the shariah audit practice area. The analysis from this study is essential to takaful players in enhancing the current practice of shariah auditing by comparing it to other practices. Besides, it will improve stakeholder awareness when it comes to understanding the shariah audit process in detail. Future research could also evaluate the effectiveness of audit practice given the current available guidelines in the finance industry especially the Takaful industry.

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