The Need of Independent Shariah Members in Islamic Cooperative Banks: An Empirical Study of Professional Accountants in Malaysia

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Abstract
The importance of shariah members in Islamic financial institutions, in some of its aspects, is to audit and check the financial system in accordance to Islam. Thus, independence status of auditor is complement to the shariah members to function effectively. To be independence shariah auditor, there is need to have separation of duties between shariah auditors and Shariah Committee to perform their duties. The purpose of this study is to assess the importance of the independent of the shariah members in Islamic Cooperative Banks in Malaysia. The methodology adopted in this study is limited to questionnaires distributed to 50 professional accountants in Malaysia. Data were analyzed using descriptive analysis. The results proved that fifty two percent of shariah auditors had total independence and played important role in ensuring shariah compliant of products and activities and their practices have been well accepted by stakeholders of Islamic Cooperative Banks. Moreover, sixty seven percent shariah auditors have been given a free reign to perform their functions and were free from intervention by the Shariah Committee during the audit process. However, shariah auditors have less team members to perform their audit services. Furthermore, most shariah auditors agree that there is a lack of expertise or human talent to perform these sorts of audit services currently in Malaysia. Finally, this study has shown that most auditors agree that there is a need to enhance their knowledge and expertise in shariah auditing in order to improve and master shariah accounting and auditing processes.

Key Words: Shariah Members, Independence, Cooperative Banks, Shariah Committee, Auditors’ Competencies, Islam.

Introduction
Shariah members’ role in Islamic finance remains as a social function and aimed for the benefit of the ummah (nation) to achieve maqasid as shariah (Dusuki & Bouheraoua, 2011). The shariah members must be independence enough in performing their duties as the members of Shariah Committee in Islamic Cooperative Banks (ICBs). The objectives of the committee are to guide Islamic financial institutions in the setting of policies and regulations according to shariah. However, in order to perform their roles, they depend on the work of shariah auditors. It is because shariah auditors are the main parties to ensure implementation of shariah precepts and requirements (Sultan, 2007) in ICBs. Their role is also to act as catalyst for better growth of ICBs. Hence, shariah auditors role remain independent to stakeholders of ICBs in order to function effectively. It is a common practice for the shariah auditor responsibility to report the status of shariah compliant to Shariah Committee and also stakeholder of ICBs (Karim, 1990). In theory, shariah audit practices should enhance shareholders’ value and confidence of stakeholders of ICBs and if
stakeholders are suspicious of non-compliance activities and operations toward shariah, it will seriously demine and affect the credibility of ICBs (Rusni & Aishath, 2011). Adequate systems and controls are required to ensure compliance with the shariah such as the rulings and fatwa of Shariah Committee are implemented as stated by Bank Negara Malaysia (BNM) (BNM, 2010).

Shariah audit is crucial and its role remains a vital complement to the current governance mechanism of Islamic financial services industry (Rahman, 2008). In order to ensure the efficiency and effectiveness of ICBs, external shariah auditors play an important part. External shariah audit is legally responsible to audit the financial statements, the financial and operational systems, the financial processes, the accounting policies etc (Karim, 1990). Hence, there is a need for external shariah audit to ensure reasonable assurance of the shariah compliance for Islamic financial activities and operations. Within the context of Malaysia, ICBs have mandatory requirement to appoint external party to conduct shariah audit. Thus, appointed external auditor who audit ICBs is not similar to audit on conventional financial institution. They need to have a good knowledge and expertise of shariah. If not, they won't be able to give a true and fair opinion on aspect shariah compliance. If true opinions do not prevail, it would not be acceptable as the role of shariah auditors would be deemed as not independent.

Shariah Committee as one of the main component of ICBs shariah governance framework focused on the product approvals, the shariah opinions and the shariah policies (BNM, 2010). Hence, shariah audit supports the function of Shariah Committee ICBs in various manners, especially by providing independent assurance to ICB’s diverse stakeholders on matters relating to ICB’s banking operations which include products and services (Ibrahim, 2008). However, shariah auditors get help by Shariah Committee in conducting shariah audit (Haniffa, 2010). Shariah Committee should not give an advice to shariah auditors to avoid conflict of interest which has been evidenced over shock corporate scandals in America (Moore, Tetlock, Tanlu, & Bazerman, 2006).

Professional accountants should avoid themselves from conflict of interest in order to maintained independent opinions on ICBs performance. Conflict of interest is defined as offenses (haram) by shariah where creates doubts in others. The prophet Mohammed said “leave that which makes you doubt for what does not make you doubt” (narrated by Tirmidhi (2442), Ahmad (1630) and Ibn Hibbaan (722)). Therefore, individual who avoid himself from conflicts of interest will expedite positive side on him toward better integrity. The prophet Mohammed also said “who keeps himself away from doubts, will highly exalt his religion and his integrity; and whoever commits doubtful things, commits offenses (hararm)” (narrated by Boukhari; Muslim; Al-Tarmidhi; and Al Nessai). Thus, Islam asserts that conflicts of interest are not desirable whether in personal life or in business arena. Therefore, and based on above, this study is trying to emphasize on the importance of the independent of the shariah members in Islamic Cooperative Banks in Malaysia.

Islamic Cooperative Banks in Malaysia

Cooperative banks are one of the non-bank financial intermediaries in Malaysian banking system (Malaysian Industrial Development Authority, 2008). Cooperatives banks are complementing banks in mobilizing savings and meeting the financial needs of the Malaysian economy (BNM, 2010). They are owned by their depositors and they may engage in a wide range of banking activities but are typically focused on retail lending (Taylor, 2013). Cooperative banks are not entirely free of problems but they have had a much lower rate of failure than commercial banks and they are not systemically risky (Taylor, 2013).

However ICBs, using mechanisms embedded in Islamic financial products have strength on financial resilience due to its greater risk sharing among cooperative bank stakeholders (Al-Muharrami & Hardy, 2013). There are three ICBs in Malaysia: Bank Kerjasama Rakyat Malaysia Bhd (Bank Rakyat), Bank Persatuan Malaysia Bhd (Bank Persatuan) and Islamic Cooperative Bank of Malaysia (ICBM) (Bernama, 2010). These ICBs were placed directly under the supervision of Central Bank of Malaysia and
Cooperative Commission of Malaysia (CCM). These ICBs offer total Islamic banking products in Malaysia. Majority of these ICBs shareholders are Muslims as they keen interest towards Islamic products (The Economist, 2014).

Bank Rakyat is the first ICBs to become a shariah cooperative bank and operates as an Islamic cooperative bank on the 8th May 1993 and became a full-fledged Islamic cooperative bank in 2002 (Othman, Kari & Hamdan, 2013). Hence, after 21 years of its establishment, Bank Rakyat was named the “Best Islamic Bank 2014” at the Global Islamic Finance Award (Bernama, 2014). The second ICBs, Bank Persatuan was originally established and officially registered as a cooperative company on 7 June 1950, under the Cooperative Company Ordinance (1948) which is currently known as the Cooperative Act (1993). On 27th November 2010, CCM approved Islamic Cooperative Bank of Malaysia (ICBM) as a third ICBs in Malaysia to start banking operations. ICBM is owned by National Cooperative Organization of Malaysia. Its acronym in Malay is known as ANGKASA which is an organization recognized by the Malaysian government as the national apex body of cooperative organizations which provides educational and support services (ANGKASA, 2014).

**Literature Review**

**Independent Shariah Members**

The independence of shariah members is perceived based on the way they are paid (Malkawi, 2014). Potential conflict of interest will arise as shariah members receive remuneration from ICBs. This will influence on their credibility in moral beliefs and religious values on guiding ICBs shariah matters (Malkawi, 2014). Moreover, shariah members will influence shariah auditor in performing their duties. The importance of shariah supervision in ICBs is vital as part of corporate governance (Hasan, 2011). The examination of products and transactions by Shariah Committee functions like a system of checks and balances. Thus, the intervention of shariah members on shariah audit function will eliminate the public trust and confidence.

Independence status of auditor is the heart of the auditing profession (Mednick, 1990). Auditors are considered to have little value without independence (Johnstone, Sutton & Warfield, 2001). Independence is one of the important elements in maintaining audit quality which effect the overall quality and credibility of financial reporting. If the lack of independence in fact exists, it will further undermine confidence (Mansouri, Pirayesh & Salehi, 2009). The auditing profession is much depends on public trust, “a perception problem is real problem” (Sutton, 1997). Shariah auditor is also need to enhance the independence status similar functions to the other institutions conventional financial audit. The conventional financial audit is adequate to fulfill the needs of the stakeholders of ICBs on shariah audit (Haniffa, 2010). This evidenced by the International Standards on Auditing (ISAs) which did not take into accounts the shariah aspects but only sets the international standards for auditing, quality control, review and other assurance and related services that serves mostly the shareholders interest. The ultimate purpose of independent shariah audit is for maslahah ummah (public interest) (Kasim, Ibrahim, & Sulaiman, 2009) rather than profit-oriented.

Independence shariah auditor is essential to the process of providing an objective, unbiased review of management's representations in an ICBs financial statements. Hence, the credibility of independence shariah auditor's role is vital to enhance public confidence (Mansouri et al., 2009) and reputation for objectivity and independence of auditing profession.

**Auditor Competencies on Shariah and Accounting**

Competency is the ability or a set of defined behaviors which guide in structured way to ease the process of identification, evaluation and development of the behaviors in individual to perform a job properly (The
IIA Global Internal Audit Competency Framework, 2014). To be competent, a person would need to have been trained. Individual competency would develop through experience and as individual progress to learn and adapt. In the field of auditing, the competency requires the auditor to have knowledge of the philosophy and practice of auditing, the degree of training, experience and skill common to the average independent auditor (Mautz & Sharaf, 1986). The auditing profession requires every auditor to be competence in auditing and accountancy, including adequate training and experience in all facets of an auditor’s work. The profession has also placed increasing emphasize on auditing and accounting professional education programs for auditors to ensure that they keep abreast of the latest ideas and techniques in auditing and accounting (Gul, Hai, Teoh, Andrew & Schelluch, 1994). They further argued that the audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing.

Whilst, shariah competency is crucial need to the external auditor who involved in the Islamic banking sector (Uddin, Ullah & Hossain, 2013). Training in this area is most concern by the stakeholder of ICBs to enhance the growth of this industry. Until today, both shariah and accounting knowledge is still lacking in the profession shariah auditor. Since 1970s, the issue of auditors who have accounting knowledge tend not to have shariah knowledge and vice versa (Uddin et al., 2013).

In order to understand and audit the ICBs, a shariah auditor must have a good knowledge in accounting and also in shariah. Therefore, there is a need to investment for the education in shariah, accounting and auditing for shariah auditor to enhance the knowledge and expertise with the shariah audit (Rahman, 2011; Sulaiman, 2011). This is because, according to Yaacob and Donglah (2012), majority of the postgraduate students are unaware of the term shariah audit and further affirmed by Ali & Shafii (2014) that they also even do not know how to differentiate between shariah audit and conventional audit.

The majority of them are in the age of 20 to 30 years old who will be involve in the industry in the future. Thus, the gap among auditor competence to the field of shariah and accounting/auditing have been studied is still unsolved (Kasim, 2013; Yaccob, 2012). In fact, both of these competencies (shariah competence and conventional accounting competence) should be required in the implementation of the audit process which are not just Islamic audit of the financial statements. However, the lower level of understanding over shariah audit, the students are willing to learn more about shariah audit as part of their course subject and areas related to Islamic finance (Ali & Shafii, 2014). Ideally, shariah audit should be conducted by a professional possessing both auditing and shariah qualification besides being adequately trained in banking operations and financial products.

Therefore, to be competitive as shariah auditors, they must possess shariah and accounting knowledge and if they do not have the necessary qualifications, their experiences in the Islamic banking could be considered (Shafii, Salleh, Hanefah & Jusoff, 2013). In other way, the certification of shariah auditor will promote professionalism and improve the conduct of Shariah audit in the industry as suggested by Shafii, Salleh, Zakaria, Hanefah, Ali, and Yunanda (2014). Shariah audit certification should at least cover the scope of shariah audit outlined by Bank Negara Malaysia, financial statements and internal control systems of an Islamic bank. The contents of certification may also include the area of business policies, process and procedures, zakat calculation and payment, contracts and agreements, and assessment of financial resources.

Shariah audit has indeed highlighted prevalent problems facing the Islamic finance industry which include the small and limited pool of available skilled human capital (Kasim, Ibrahim & Sulaiman, 2009) in terms of knowledge and qualification (Rammal & Parker, 2010). Shariah auditor shall carried out an audit on ICBs to make the institutions accountable to God, shareholders, stakeholders and to the society. The knowledge and expertise of the actors involve with the shariah audit are crucial to enhance and being well educated in shariah, accounting and auditing (Rahman, 2011; Sulaiman, 2011).
Auditor Reliance on Shariah Advisor or Shariah Committee

Shariah governance for Islamic Financial Institutions (IFIs) in Malaysia is governed by the Shariah Governance Framework (SGF) for the Islamic Financial Institutions 2010 (BNM, 2010) that was developed and introduced by Central Bank of Malaysia. SGF states that Shariah Committee as an internal shariah advisory body formed in each respective IFI is important to ensure the overall Islamic financial practices of such institution operates in accordance with the shariah principles. The Shariah Committee is established as a statutory requirement to all banks and takaful operators which offer Islamic banking and takaful products pursuant to section 3-5/b of the Islamic Banking Act 1983 for Islamic banks, section 124/7 of the Banking and Financial Institution Act 1989 for Islamic Banking Scheme Banks, section 8-3/a Takaful Act 1984 for Takaful operators and section 16/B of the Central Bank of Malaysia (Amendment) Act 2003 for Central Bank of Malaysia. The main objective of the establishment of the Shariah Committee is to advise Islamic financial institutions on any shariah matter and also to ensure compliance with the shariah tenets and requirements in their operations.

The Shariah Governance Framework (SGF) provides a comprehensive guidance to the Shariah Committee in discharging its duties and responsibilities in matters relating to shariah. Shariah Committee shall at all times to exercise its duties and responsibilities with independence manner. Shariah Committee requires the findings of shariah audit and shariah review to ensure that the ICB has been carrying on shariah compliant activities, and they accountable to the board of directors of ICB. According to Shafii, Salleh and Shahwan (2010), the duties and responsibilities of the shariah advisors are to ensure that all ICBs’ products and services, policies and contracts strictly adhere to the shariah. However, the external shariah auditors who heavily rely on the shariah reviews done by the internal auditors with the advice of shariah advisors of the ICBs on shariah compliant test by who are not competent in shariah are questionable (Yaacob, 2012). Furthermore, conflict of interest may arise as shariah advisors are limited in the industry and they may be serving multiple ICBs or IFIs in contravention of government banking regulations (Rammal & Parker, 2010).

Karim (1990) asserted that Shariah Committee needs to function as what the external auditors in conventional corporations. The function of Shariah Committee is to advise the chief executive officer or the board of directors on the shariah matters. Therefore, the Islamicity of the ICBs would never be compromised as all stakeholders and shareholders have the rights and interests on governance mode and mechanisms shield (Iqbal & Mirakhor, 2011).

Theoretical Framework and Methodology

Based on the above literature, the framework for this study is as follows:

![Figure 1 Framework of the Study](image-url)
The methodology adopted in this study is limited to survey that done on professional accountants of ICBs. The population of this study is estimated of 100 auditors from audit firms in Malaysia who perform financial audit of ICBs. The sample of this study is 50 of whom 40 professional accountants were responded with a response rate of 80%. The questionnaire consists of 23 questions, 15 of which are related to independent shariah auditor, 4 related to auditor competencies on shariah and accounting and 4 of which are about auditor reliance on shariah advisor. It is designed by using the 5-degrees Likert spectrum. Table 1 shows the number of respondents which subsequently explains their demographics. To measure the reliability of the questionnaires, the overall reliability coefficients of the questionnaire resulted is acceptable, as the Cronbach's alpha value is 0.751.

This study used random sampling to select professional accountants in Malaysia. The questionnaires were distributed personally by the first author to 40 professional accountants in Malaysia. The majority of participants is above 21 years old (90%) and married (62.5%). The majority of them have qualification of bachelor degree (62.5%) and have working experience of more than 5 years (55%). In terms of gender, (60%) of them are male and complement by female (40%).

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Ranges</th>
<th>Frequency</th>
<th>Percentages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>24</td>
<td>60.0</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>16</td>
<td>40.0</td>
</tr>
<tr>
<td>Marital Status</td>
<td>Married</td>
<td>25</td>
<td>62.5</td>
</tr>
<tr>
<td></td>
<td>Single</td>
<td>15</td>
<td>37.5</td>
</tr>
<tr>
<td>Age</td>
<td>Above 21 years</td>
<td>36</td>
<td>90.0</td>
</tr>
<tr>
<td></td>
<td>Below 20 years</td>
<td>4</td>
<td>10.0</td>
</tr>
<tr>
<td>Education</td>
<td>Bachelor degree</td>
<td>25</td>
<td>62.5</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>14</td>
<td>35.0</td>
</tr>
<tr>
<td></td>
<td>Certificate</td>
<td>1</td>
<td>2.5</td>
</tr>
<tr>
<td>Experiences</td>
<td>5 years and above</td>
<td>22</td>
<td>55.0</td>
</tr>
<tr>
<td></td>
<td>1-5 years</td>
<td>16</td>
<td>40.0</td>
</tr>
<tr>
<td></td>
<td>Below 1 years</td>
<td>2</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Based on Table 2, it shows that 19 statements out of 23 got a high level of importance according to their mean, which indicates that almost all statements are considered as “highly important”. These indicated that shariah auditors had fully independent in performing their duties in ICBs. However, they were not having enough team members due to ICBs also rely on external shariah auditor review on shariah compliant of Islamic financial institutions activities.

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Level of Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>The integrity of the shariah auditor needs to be perceived as independent enough by those stakeholders of Islamic finance.</td>
<td>4.40</td>
<td>0.744</td>
<td>High</td>
</tr>
<tr>
<td>A2</td>
<td>The shariah audit team has adequate independent to perform shariah audits.</td>
<td>4.37</td>
<td>0.740</td>
<td>High</td>
</tr>
<tr>
<td>A3</td>
<td>We have sufficient number of staff to perform shariah audit effectively.</td>
<td>3.30</td>
<td>0.992</td>
<td>Medium</td>
</tr>
<tr>
<td>A4</td>
<td>Shariah auditors express an opinion on the true and fair view of the financial statement only.</td>
<td>3.53</td>
<td>0.933</td>
<td>Medium</td>
</tr>
<tr>
<td>A5</td>
<td>The shariah auditor(s) demonstrated professionalism and an objective approach.</td>
<td>4.32</td>
<td>0.888</td>
<td>High</td>
</tr>
<tr>
<td>No.</td>
<td>Item</td>
<td>Mean</td>
<td>Standard Deviation</td>
<td>Level of Importance</td>
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<tr>
<td>-----</td>
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</tr>
<tr>
<td>A6</td>
<td>There was no undue disruption to my workplace during the audit and our work environment was respected, e.g. safeguarding of documents and access to facilities.</td>
<td>4.00</td>
<td>0.751</td>
<td>High</td>
</tr>
<tr>
<td>A7</td>
<td>I was given the opportunity to provide input on the findings and conclusions, and on the recommendations made to address them.</td>
<td>4.00</td>
<td>0.784</td>
<td>High</td>
</tr>
<tr>
<td>A8</td>
<td>The public’s trust and confidence in Islamic financial institutions and markets serves as a primary determinant of the system’s soundness and stability.</td>
<td>4.47</td>
<td>0.847</td>
<td>High</td>
</tr>
<tr>
<td>A9</td>
<td>My staff and I were given the opportunity to provide input, including any concerns and our perspectives, to the planning process.</td>
<td>4.28</td>
<td>0.506</td>
<td>High</td>
</tr>
<tr>
<td>A10</td>
<td>Shariah auditors should have their own professional body (association) the same as professional accountants do.</td>
<td>4.50</td>
<td>0.679</td>
<td>High</td>
</tr>
<tr>
<td>A11</td>
<td>Shariah auditors should not be bias.</td>
<td>4.78</td>
<td>0.530</td>
<td>High</td>
</tr>
<tr>
<td>A12</td>
<td>Shariah auditors should receive wages from its firm rather than Islamic financial institutions.</td>
<td>3.93</td>
<td>1.071</td>
<td>High</td>
</tr>
<tr>
<td>A13</td>
<td>Shariah auditors affect the performance of Islamic financial institutions.</td>
<td>4.35</td>
<td>0.770</td>
<td>High</td>
</tr>
<tr>
<td>A14</td>
<td>Shariah auditors shouldn't have family relationships with anyone in the Islamic financial institutions which they audit.</td>
<td>3.93</td>
<td>1.228</td>
<td>High</td>
</tr>
<tr>
<td>A15</td>
<td>Shariah auditor shouldn't have any conflict of interest with anyone in the Islamic financial institutions which they audit.</td>
<td>4.08</td>
<td>1.095</td>
<td>High</td>
</tr>
<tr>
<td>B1</td>
<td>Shariah auditing is lack of expertise and human talent to perform Shariah audit.</td>
<td>4.05</td>
<td>0.677</td>
<td>High</td>
</tr>
<tr>
<td>B2</td>
<td>Our Shariah auditors are adequately trained in banking operations and financing products.</td>
<td>3.48</td>
<td>0.847</td>
<td>High</td>
</tr>
<tr>
<td>B3</td>
<td>The knowledge and expertise of the Shariah audit is crucial to enhance and being well educated in Shariah, accounting and auditing.</td>
<td>4.40</td>
<td>0.591</td>
<td>High</td>
</tr>
<tr>
<td>B4</td>
<td>The Shariah auditor(s) demonstrated a good knowledge of the subject matter.</td>
<td>3.95</td>
<td>0.749</td>
<td>High</td>
</tr>
<tr>
<td>C1</td>
<td>It is a common practice for the external Shariah auditors to rely heavily on or follow the advice of Shariah advisors or the Shariah Supervisory Board.</td>
<td>3.32</td>
<td>0.971</td>
<td>Medium</td>
</tr>
<tr>
<td>C2</td>
<td>Islamic financial institutions rely on internal Shariah review alone.</td>
<td>3.38</td>
<td>0.979</td>
<td>Medium</td>
</tr>
<tr>
<td>C3</td>
<td>External Shariah auditors check on Shariah compliant of Islamic financial institutions activities.</td>
<td>4.10</td>
<td>0.744</td>
<td>High</td>
</tr>
<tr>
<td>C4</td>
<td>Shariah Supervisory Board have no involvement in the shariah audit process.</td>
<td>3.58</td>
<td>1.059</td>
<td>High</td>
</tr>
</tbody>
</table>

Whilst based on correlation coefficients of the computed mean of those variables and regression analysis, the results show that between 2 factors: auditor competencies on shariah and accounting, and reliance on ICBs shariah advisor are positive and significant relationship with independent shariah members. In addition, it showed that R (0.336) is the correlation of the independent variable with dependence variable.
11.3% of the variance in independent has been significantly explained by auditor competencies and auditor reliance on shariah advisor. Whilst ANOVA shows that F value of 2.349 is significant at the 0.11 level.

**Discussion and Analysis**

From the feedback obtained from the questionnaire, this research paper aims to provide an analysis with regards to the problem statement mentioned above. From Table 1, it indicates that most of the respondents were men (60%) while the average or mean age group of auditors were between 21-40 years. This clearly indicates that the male genders predominantly were active in shariah auditing but there is a very good indication that young professionals are active in shariah auditing. With regards to qualifications, there are highly qualified auditors as 62.5% of respondents have either Degree or Masters Degree and supported by 35% diploma holders to perform shariah auditing. In term of years active in performing audit, it clearly indicates that most of them (80%) have on average 1-10 years experience in this field.

The results of this study confirmed most of the auditors integrity (52.5%) have been perceived independent enough by ICBs stakeholder to perform their duties with professionalism and objective approach. This has been affirmed by most of these auditors (65%) that they are not disrupted at their workplace and working environment. Furthermore, most of them (67.5%) are feeling free of mind to give opinion based on the findings and conclusions, and on the recommendations they achieved and even during it at audit planning stages.

Most auditors (62.5%), further strongly agree that public’s trust and confidence in ICBs and markets serves as a primary determinant of the system’s soundness and stability because of the trust in the shariah auditing system remain strong. Most of the respondents stated that the Islamic pillars embedded within the shariah auditing system is the major reason for this high level of confidence as it promotes accountability and transparency throughout the whole auditing system. To correspond with the level of confidence that the general public have on the shariah auditing process, 52.5% of auditors are affirmed that they are not express an opinion on the true and fair view of the financial statement only but they are also checking on shariah compliant of ICB activities matter.

In order to enhance the need of shariah auditor independent, 95% of auditors welcomed the idea that a professional shariah auditing body be set-up to create and streamline a common shariah auditing process within the Malaysian business context. Hence, to better ensure the shariah auditing process remains accountable to all stakeholders, the shariah professional affiliation would ensure the integrity and code of conduct of shariah auditor to remain independent. For instance, over (77.5%) of them believed that auditors’ role is to remain unbiased, avoid committing family relationships in ICBs and conflict of interest. More than half of auditors (52.5%) agreed that their high commitment in maintaining independent role had directly effect on the performance of ICBs operation.

Furthermore, 70% auditors agree that they should receive wages from their firm rather than ICBs to exalt the independence of shariah auditor in performing their duties. Therefore, the shariah professional affiliation or body would have the capacity to regulate or enhance the shariah auditing framework in term of shariah auditor code of conduct, integrity and remuneration as to safeguard the institutional pillars of shariah auditing to achieve maqasid as shariah (objectives of Islamic Shariah) for benefit of masalah ummah (public/nation’s interest).

However, 85% respondents believe that shariah auditing is lack of expertise and human talent and sufficient team members to perform shariah audit and further half of them (50%) affirmed that they did not have adequately trained in banking operations and financing products. Thus, most of the auditors (95%) are demanding to acquire more knowledge and expertise of the shariah audit in order to enhance their function in shariah auditing. Therefore, they are ready to be well educated in shariah, accounting and auditing.
On the other side, most external auditors (75%) do not rely or follow the advice of shariah advisor even though ICBs (75%) still much depend on internal reviews which have been done by their internal reviewers such as internal auditors who may depend on shariah advisors. This is because they had maintained their integrity in performing their duties. Most of the external auditors (79.5%) affirmed that their duties also involve in ensuring shariah compliant of ICBs activities and most likely there is no involvement of shariah advisory in the auditing process.

Conclusions

This study has proved the need for total independence of shariah members through shariah auditors to ensure that shariah compliant of products and activities within the context of an Islamic Cooperative Banks in Malaysia in order to enhance the public confidence on ICBs. From the questionnaire, feedback provided by most of shariah auditors depict that they have been given total independence while doing their duties and their practices are accepted by stakeholders of ICBs. From their response, shariah auditors have free reign to perform their functions from intervention by Shariah Committee during the audit process.

Evidence obtained from the study equally found that there is also no involvement of Shariah Committee even at the audit planning stage. Unfortunately with the aim of sustaining professionalism and effective audit process within the ICBs context, shariah auditors have less sufficient team members to perform audit services. Thus, most shariah auditors agree that there is a lack of expertise or human talent to perform these sorts of audit services. Finally, this study has shown that most auditors agree that they need more enhanced knowledge and expertise in shariah auditing in order to improve and master shariah accounting and auditing processes. The shariah auditors should be members of an independent professional body to uphold the independent of auditor to reflect the independent of shariah members of ICBs. The shariah members should have a separation of function from shariah auditors. In other words, there should be developed a certain criteria to identify a person to be qualified as shariah advisor in Islamic finance. Hence, there is the need to monitor the independence of shariah members in Islamic financial institutions by professional body.

References


