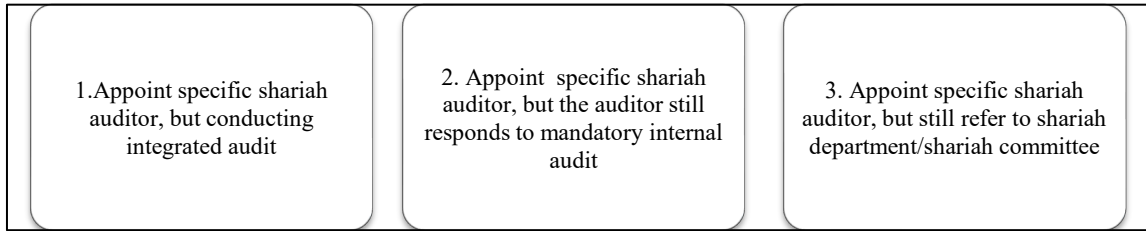


Figure 3: Category of Shariah audit structure resulting from combination of hybrid model and embed all auditors' model



Sources: Authors

Based on the findings, it is notable that the majority of takaful operators appoint one specific auditor to conduct the Shariah audit function based on the statistics which shows that 45% of takaful operators adapted a hybrid model and another 45% adapted a combination of hybrid model and embed all auditors' model. However, commonly, the Shariah auditors appointed are still involved in mandatory audit and have an active engagement with the Shariah department or in some cases with the Shariah committee. There are many reasons behind the adoption of a combination between Model II and Model III. Firstly, this happened because of the issue of competency faced by the takaful industry especially in recruiting talent which have good command in both Shariah knowledge and accounting knowledge.

Based on the background analysis, the education background of the auditors can be categorized into three areas: accounting and finance, Shariah, and others. Majority of the auditors were from the accounting or finance background and only one auditor has Shariah background. In one instance, it happened that the auditor is neither from the accounting nor Shariah background but graduated in the architecture field. Majority of the Shariah auditors also admitted that they themselves are still not qualified to become competent Shariah auditors as they still need to undergo the specific training on Shariah. It is also observed that the takaful operators are very committed in arranging the necessary courses and professional training to enhance the knowledge and competency of its Shariah auditors especially in the Shariah field. This is also one way of solving the issues of talent development in IFIs.

Secondly, another reason why the Shariah audit model is overlapping between Model II and Model III is due to the size of the business. Typically, there will only be two or three persons in the internal audit department due to the size of takaful business, which is relatively small compared to the Islamic banking industry. This main reason makes it impossible for the takaful operator to establish one specific department or unit for the Shariah audit function. Hiring additional staff means that the takaful operator must incur additional cost, which is the main concern for every business.

Thirdly, the structure and nature of the business also become the factors why takaful operators are characterized in Model II and Model III. About 2/3 of takaful operators in Malaysia are not only takaful services providers, but they are also insurance services providers as well. Commonly, a Shariah auditor is placed at the group level as they offer shared services, which means that the auditor is not only conducting Shariah audit for the takaful company, but also for other businesses which consist of any Islamic services. In some cases, there is only one Muslim auditor at the group level, and because of that he/she is appointed as the Shariah auditor, but at the same time must respond to mandatory internal audit. There is also a takaful operator which outsources their internal audit from conventional insurance providers.

Only one out of the eleven takaful operators has not appointed one specific Shariah auditor, but they have a Shariah audit function in the internal audit department. In other words, this takaful operator is the only operator which adapts the embed all auditors' model. The reason for the non-existence of a separate Shariah audit personnel is because the auditors feel that there is an issue of redundancy with the Shariah review function. Besides, the takaful operator offers only Islamic products and services, and this becomes the main reason for integrating the Shariah audit with operational audit. Normally, when the auditor is conducting their operational audit, the auditor will start by doing the review according to the functions of each department and then examines any Shariah issues.

However, there might be ineffectiveness in the Shariah audit process by adapting the embed all auditors model because of unspecified task given to the auditors. One of the factors in ensuring the effectiveness of audit function is resources adequacy which includes having specific skills for specific function (Alzeban and Gwiliam, 2014; Ahmad, 2015; Ofori and Lu, 2018). For example, in auditing IT, takaful operators need auditors with IT skills. The same goes for Shariah audit function which requires someone with Shariah skills, and therefore a takaful operator must at least have one specific person to conduct the Shariah audit function. Therefore, it is important to have the existence of a specific person who is taking charge for the Shariah audit function.

Another possibility that might happen by adapting the embed all auditors model only is they might overlook some of the Shariah issues. This is due to, when conducting the mandatory audit, the auditors are focusing on the operational part. In certain circumstances, the auditor is not competent enough in evaluating the Shariah risk. Due to this, the auditor must have an active engagement with the Shariah department or both functions can work together in ensuring the Shariah audit function is able to achieve its objective. Besides that, the auditor could also engage with the Shariah committee and must ensure the involvement of Shariah committee is not during the reporting stage only.

Although none of the takaful operators have a specific department or unit for Shariah audit, the hybrid model (Model II) serves as the best option. However, this type of hybrid model requires a competency framework to enhance the Shariah audit function as suggested by Mohd Ali et al. (2014). Based on their observations, it is good if the takaful operator can allocate auditor with Shariah background in the internal audit department to oversee the Shariah audit function. Having an integrated background in internal audit rather than having only accounting or finance background would be an added advantage to the Shariah audit function.

The advantage of having an integrated background in internal audit function provides diversification in the risk assessment process. For instance, auditors with Shariah background will detect risks related to Shariah due to their expertise in Shariah whereas the auditor with finance or accounting background normally will be able to detect the risk which is related to business operation. The concept of an integrated background of the auditor can be applied by taking an example from the requirement of having a diversified background of Shariah committee members.

A study by Abdul Rahman and Bukair (2013) argued that the combination of Shariah and other qualifications, in this case accounting or finance qualification, would assist team members to better comprehend not only on Shariah issues, but other related accounting issues. Another finding by Noordin and Kassim (2019) revealed that Islamic banks with a bigger size of Shariah committee whose majority members have an outstanding understanding of Shariah with expert involvement in other relevant knowledge backgrounds such as finance, accounting and economics provide better disclosure of Shariah issues in the IFIs. Therefore, having at least one auditor with Shariah background in the internal audit department is the best solution.

After the discussion on each of type of the model, thus it can be summarized that each of the models has its own advantages and disadvantages. Table 4 shows the advantages and disadvantages of adapting the three types of models of Shariah audit function which are currently adapted by takaful operators.

Table 4: Advantages and disadvantages of adapting hybrid model, embed all auditors model and combination of hybrid model and embedded all auditors' model

Shariah audit model currently adapted	Hybrid model	Embed all auditors model	Combination of hybrid model and embedded all auditors model
Advantages	<ul style="list-style-type: none"> • Cost saving because there is no need to set up a new unit or department • Specification of skills 	<ul style="list-style-type: none"> • Cost saving because there is no need to set up a new unit or department • Efficient use of resources 	<ul style="list-style-type: none"> • Cost saving because there is no need to set up a new unit or department • Specification of skills • Active engagement with Shariah department
Disadvantages	<ul style="list-style-type: none"> • Talent development issues 	<ul style="list-style-type: none"> • No specific person in charge for Shariah audit 	<ul style="list-style-type: none"> • Auditors still have to respond to other audit activities

Sources: Authors

Table 5: Themes, categories and responds relating to the models of Shariah audit function

Themes	Category	Responds
Models of Shariah audit	Hybrid	<p>“I’m the only one who is responsible for Shariah audit and develop Shariah audit manual.” (R1)</p> <p>“I am an audit associate, or a Shariah auditor and my reporting line is to Chief of Internal Auditor.” (R4)</p> <p>“We are at the group level because Islamic business is our portfolio, so whichever part that has Islamic presence we have to cover...and whenever they want to do Shariah audit for takaful, we will integrate with the internal auditor for insurance.” (R7)</p>
	Embed all auditors	<p>“I’m the head operational audit and at the same time, I also cover for Shariah part. We don’t have separate team for Shariah audit. Nobody is doing Shariah audit...” (R5)</p> <p>“We don’t have one specific assignment for Shariah...because at the end of the day it is like in terms of operation we also must check back on Shariah. So, we feel like there is a redundancy. So, we stopped separating Shariah audit and now we incorporate all the Shariah scope and perspective into operational audit...” (R5)</p>
	Combination of hybrid and embed all auditors	<p>“I am in Internal audit for this Takaful Operator and there are only two staff in this department. I will report to Chief of Internal Audit at Group level...I’m doing the internal audit for Takaful operation or whenever we have inadequate resources. However, I’m the one who is responsible for Shariah audit...” (R3)</p> <p>“I am the only Shariah auditor for this organization and occasionally, I have to perform operational audit...” (R9)</p> <p>“We have one Shariah auditor, but now she is not qualified...she is from the architecture background, and she is very interested to join. So, I gave her the opportunity...” (R11)</p> <p>“I am the only person in charge of Shariah audit, and I am also involved with operational audit. I work closely with Shariah officer and Shariah committee...” (R12)</p> <p>“I am the only Muslim in this department, so I am the one who conducted Shariah audit and at the same time conducting operational audit...” (R14)</p> <p>“I am in charge for Shariah audit...but for this organization this function is still new...” (R15)</p>

Sources: Authors

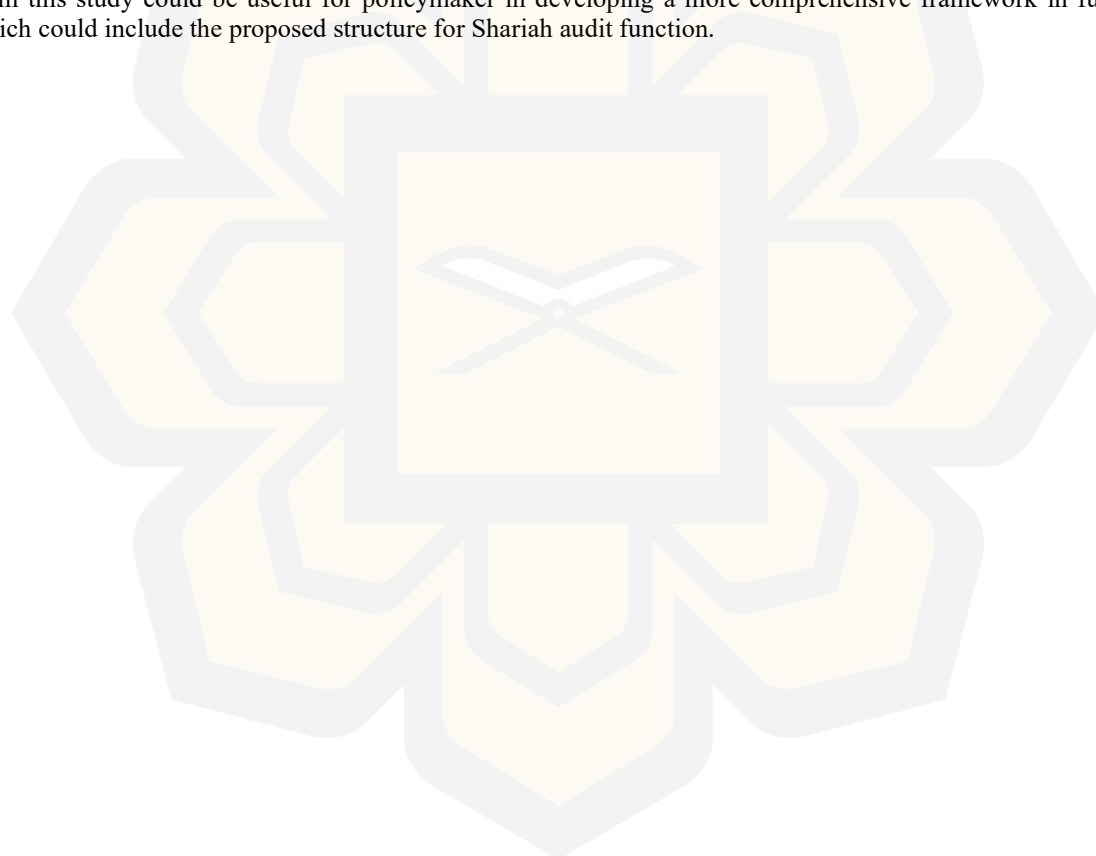
The structure of Shariah audit or model adapted by takaful operators for conducting Shariah audit will affect the effectiveness of Shariah audit function. As recommended by most of the respondents, takaful operators should have one specific auditor which specifically performs the duty of Shariah auditor. As commonly practiced, most IFIs would have the same person conducting mandatory audit while at the same time play a role as a Shariah auditor (Yazkhiruni et al., 2018). As a result, the auditor might not be able to focus on the scope of Shariah while doing the Shariah audit process as normally they would conduct the normal audit together and there is a chance that the auditor might overlook some important issues or at some other time, they might accidentally find the Shariah issues.

To avoid this situation, takaful operators should have one specific auditor which specifically performs the Shariah audit function although the Shariah auditor is placed in internal audit department. A study by Isa et al. (2020) has proved that majority of the practitioners agreed that the presence of an in-house internal audit unit for Shariah audit in IFIs is crucial. It is not deniable that many takaful operators might not be able to provide a separate and specific Shariah audit department to cater for the need of having a Shariah audit function due to the limited resources such as limited budget and limited human resources. Management also does not want to incur high cost in setting up a separate Shariah audit department. As a solution, in the short run, to ensure the function of Shariah audit is effective, one dedicated person should be hired to conduct Shariah audit which still can be placed in internal audit department to avoid takaful operators from incurring so much cost.

5. Conclusion and Recommendation

The findings of the current study highlighted on the structure of Shariah audit function adapted by Malaysian takaful operators. The Shariah audit structure or model adapted by takaful operators for conducting Shariah audit will have an impact on the Shariah audit function's performance. According to most respondents, takaful operators should have one specialized auditor who is only responsible for Shariah auditing. Although the Shariah auditor is positioned in the internal audit department, takaful operators should have one dedicated auditor who performs Shariah audit functions. The findings of the study are important for the industry in enhancing their current Shariah audit practice particularly in determining the structure of their Shariah audit function.

However, when interpreting the outcomes of this study, it is important to keep in mind its limitations. First, this study focusses solely on takaful industry. Another area for further research is to examine Shariah audit function for all types of IFIs which include Islamic banks, which are more advanced in their Shariah audit function. A comparison analysis could also be performed further. A second limitation is that the data collected is based on qualitative evidence gathered through face-to-face interviews, which leaves it vulnerable to biases including memory recall and social desirability bias. The respondents, on the other hand, appeared to be sincere and confident, putting our minds at ease about the interviews' reliability. The implications that can be drawn from this study could be useful for policymaker in developing a more comprehensive framework in future which could include the proposed structure for Shariah audit function.



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